

OFFERING MEMORANDUM



U.S.\$100,000,000

The Commonwealth of The Bahamas

7.125% Notes due 2038

The notes will bear interest at the rate of 7.125% per year. Interest on the notes is payable on April 2 and October 2 of each year, beginning on October 2, 2008. The notes will mature on April 2, 2038. 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 will be our direct, general, unsecured and unconditional obligations and will rank *pari passu*, without any preference or priority of payment, among themselves and with all our other present and future unsecured and unsubordinated indebtedness.

Application has been made to list the notes on the official list of the Luxembourg Stock Exchange, and to have the notes admitted to trading on the Euro MTF market of the Luxembourg Stock Exchange. This Offering Memorandum constitutes a prospectus for the purpose of the Luxembourg law dated July 10, 2005 on Prospectuses for Securities.

The notes have not been registered under the Securities Act of 1933 or any state securities laws. Accordingly, the notes are being offered and sold in the United States only to qualified institutional buyers in accordance with Rule 144A under the Securities Act 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."

Price: 99.865% plus accrued interest, if any, from April 2, 2008.

The initial purchasers expect to deliver the notes to purchasers, in book-entry form through the facilities of the Depository Trust Company, on or about April 2, 2008.

RBC Capital Markets

FirstCaribbean International Bank (Bahamas) Limited

Co-Manager

Citi

April 22, 2008



You should rely only on the information contained in this offering memorandum. We have not authorized anyone to provide you with different information. We are not, and the initial purchasers are not, making an offer of these securities in any state or jurisdiction 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 proposed offering of the securities described in this offering memorandum.

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.

We have furnished the information contained in this offering memorandum. 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. 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.

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, RBC Capital Markets Corporation, FirstCaribbean International Bank

(Bahamas) Limited and Citigroup Global Markets Inc. 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 RBC Capital Markets Corporation, FirstCaribbean International Bank (Bahamas) Limited and Citigroup Global Markets Inc. to do this. Such stabilizing, if commenced, may be discontinued at any time and must be brought to an end after a limited period.

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.

NOTICE TO RESIDENTS OF GERMANY

FOR THE OFFERED SECURITIES, NO PROSPECTUS HAS BEEN ISSUED, AUTHORIZED OR PUBLISHED IN GERMANY. ACCORDINGLY, THE OFFERED SECURITIES MAY NOT BE PUBLICLY OFFERED, SOLD OR DISTRIBUTED IN GERMANY OR FROM GERMANY AND THIS OFFERING MEMORANDUM IS FOR THE RECIPIENT ONLY AND MAY NEITHER BE FORWARDED TO ANY OTHER PERSON NOR TO THE PUBLIC IN GERMANY NOR FROM GERMANY TO ANY OTHER PERSON OR TO THE PUBLIC OUTSIDE GERMANY. THE OFFERED SECURITIES MAY, HOWEVER, BE OFFERED AND THIS OFFERING MEMORANDUM MAY BE DISTRIBUTED IN GERMANY ON A PROFESSIONAL BASIS TO A LIMITED NUMBER OF INVESTORS IN CIRCUMSTANCES QUALIFYING FOR THE EXEMPTION UNDER SECTION 3(2) OF THE GERMAN SECURITIES PROSPECTUS ACT (*WERTPAPIERPROSPEKTGESETZ*) OF 22ND JUNE 2005.

HINWEIS FÜR IN DER BUNDESREPUBLIK DEUTSCHLAND ANSÄSSIGE PERSONEN

FÜR DIE ANGEBOTENEN WERTPAPIERE WURDE KEIN PROSPEKT IN DEUTSCHLAND ERSTELLT, GEBILLIGT ODER VERÖFFENTLICHT. DEMGEMÄSS DÜRFEN DIE ANGEBOTENEN WERTPAPIERE IN DEUTSCHLAND ODER VON DEUTSCHLAND AUS NICHT ÖFFENTLICH ANGEBOTEN, VERKAUFT ODER VERTRIEBEN WERDEN, UND DIESE VERKAUFUNTERLAGE RICHTET SICH AUSSCHLIESSLICH AN DEN EMPFÄNGER UND DARF WEDER IN DEUTSCHLAND AN EINE ANDERE PERSON ODER AN DIE ÖFFENTLICHKEIT NOCH VON DEUTSCHLAND AUS AN ANDERE PERSONEN ODER DIE ÖFFENTLICHKEIT AUSSERHALB DEUTSCHLANDS WEITERGEGEBEN WERDEN. IN DEUTSCHLAND DÜRFEN DIE ANGEBOTENEN WERTPAPIERE JEDOCH ANGEBOTEN UND DIESE VERKAUFUNTERLAGE WEITERGEGEBEN WERDEN, WENN DIES IN BERUFSÜBLICHER WEISE GEGENÜBER EINER BEGRENZTEN ANZAHL VON ANLEGERN UNTER UMSTÄNDEN GESCHIEHT, DIE DEN ANFORDERUNGEN DES AUSNAHMETATBESTANDS GEMÄSS § 3 ABS. 2 DES DEUTSCHEN WERTPAPIERPROSPEKTGESETZES VOM 22. JUNI 2005 ENTSPRECHEN.

NOTICE TO RESIDENTS OF IRELAND

Each of the Initial Purchasers has represented, warranted and agreed that:

- (A) IT WILL NOT UNDERWRITE THE ISSUE OF, OR PLACE THE OFFERED SECURITIES, OTHERWISE THAN IN CONFORMITY WITH THE PROVISIONS OF S.I.

NO. 60 OF 2007, EUROPEAN COMMUNITIES (MARKETS IN FINANCIAL INSTRUMENTS) REGULATIONS 2007 (MIFID REGULATIONS), INCLUDING, WITHOUT LIMITATION, PARTS 6, 7, AND 12 THEREOF AND THE PROVISIONS OF THE INVESTOR COMPENSATION ACT 1998;

- (B) IT WILL NOT UNDERWRITE THE ISSUE OF, OR PLACE, THE OFFERED SECURITIES, OTHERWISE THAN IN CONFORMITY WITH THE PROVISIONS OF THE IRISH CENTRAL BANK ACTS 1942 - 2004 (AS AMENDED) AND ANY CODES OF CONDUCT RULES MADE UNDER SECTION 117(1) THEREOF;
- (C) IT WILL NOT UNDERWRITE THE ISSUE OF, OR PLACE, OR DO ANYTHING IN IRELAND IN RESPECT OF THE OFFERED SECURITIES OTHERWISE THAN IN CONFORMITY WITH THE PROVISIONS OF THE IRISH PROSPECTUS (DIRECTIVE 2003/71/EC) REGULATIONS 2005 AND ANY RULES ISSUED UNDER SECTION 51 OF THE IRISH INVESTMENT FUNDS, COMPANIES AND MISCELLANEOUS PROVISIONS ACT 2005, BY THE IRISH CENTRAL BANK AND FINANCIAL SERVICES REGULATORY AUTHORITY (IFSRA); AND
- (D) IT WILL NOT UNDERWRITE THE ISSUE OF, PLACE OR OTHERWISE ACT IN IRELAND IN RESPECT OF THE OFFERED SECURITIES, OTHERWISE THAN IN CONFORMITY WITH THE PROVISIONS OF THE IRISH MARKET ABUSE (DIRECTIVE 2003/6/EC) REGULATIONS 2005 AND ANY RULES ISSUED UNDER SECTION 34 OF THE IRISH INVESTMENT FUNDS, COMPANIES AND MISCELLANEOUS PROVISIONS ACT 2005 BY IFSRA.

NOTICE TO RESIDENTS OF THE UNITED KINGDOM

THIS OFFERING MEMORANDUM AND ANY OTHER DOCUMENT IN CONNECTION WITH THE OFFERING AND ISSUANCE OF THE OFFERED SECURITIES MAY ONLY BE ISSUED OR PASSED ON TO A PERSON OF A KIND DESCRIBED IN ARTICLE 49(2) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 OR IS A PERSON TO WHOM THIS OFFERING MEMORANDUM OR ANY OTHER SUCH DOCUMENT MAY OTHERWISE LAWFULLY BE ISSUED OR PASSED ON (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS “RELEVANT PERSONS”). ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFERING MEMORANDUM RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS.

NOTICE TO RESIDENTS OF THE NETHERLANDS

IT IS PROHIBITED TO OFFER SECURITIES IN THE NETHERLANDS UNLESS (I) A PROSPECTUS, WHICH HAS BEEN APPROVED BY THE NETHERLANDS AUTHORITY FOR THE FINANCIAL MARKETS (“AFM”) OR BY THE SUPERVISORY AUTHORITY OF ANOTHER MEMBER STATE (PROVIDED, IN THE LATTER CASE, THAT THE REQUIRED NOTIFICATION HAS BEEN MADE TO THE AFM), IS PUBLISHED OR (II) AN EXEMPTION PURSUANT THE FSA OR THE EXEMPTION REGULATION PURSUANT TO THE FSA (VRIJSTELLINGSREGELING WET OP HET FINANCIEEL TOEZICHT), AS AMENDED FROM TIME TO TIME APPLIES. AN EXEMPTION TO THE PROHIBITION APPLIES IN CASE OF (SECTION 5:3 FSA):

- (A) AN OFFER OF THE SECURITIES ADDRESSED SOLELY TO QUALIFIED INVESTORS, INCLUDING (I) PARTIES REGULATED OR AUTHORIZED TO ACT ON THE FINANCIAL MARKETS, (II) GOVERNMENTAL ORGANIZATIONS, (III) ENTITIES MEETING OF AT LEAST TWO OF THE FOLLOWING THREE

CRITERIA, (1) AN AVERAGE NUMBER OF EMPLOYEES OF AT LEAST 250, (2) A TOTAL BALANCE SHEET OF MORE THAN EUR 43 MILLION AND (3) AN ANNUAL NET TURNOVER OF MORE THAN EUR 50 MILLION, (IV) SMALL SIZED DUTCH LEGAL ENTITIES WHO HAVE REQUESTED TO BE REGISTERED AS A QUALIFIED INVESTOR BY THE AFM, (V) NATURAL PERSONS DOMICILED IN THE NETHERLANDS WHO HAVE REQUESTED TO BE REGISTERED AS A QUALIFIED INVESTOR BY THE AFM, MEETING AT LEAST TWO OF THE FOLLOWING THREE CRITERIA: (1) ON AVERAGE AT LEAST 10 SIGNIFICANT TRANSACTIONS ON THE FINANCIAL MARKETS PER QUARTER DURING THE LAST FOUR QUARTERS, (2) THE SIZE OF THE PERSON'S SECURITIES PORTFOLIO EXCEEDS EUR 500,000 AND (3) THE PERSON HAS WORKED FOR AT LEAST ONE YEAR IN THE FINANCIAL SECTION IN A PROFESSIONAL POSITION WHICH REQUIRES KNOWLEDGE OF SECURITIES INVESTMENT, (VI) LEGAL ENTITIES WHOSE CORPORATE PURPOSE IS SOLELY TO INVEST IN SECURITIES, AND (VII) A NATURAL PERSON OR A COMPANY DEEMED TO BE A QUALIFYING INVESTOR IN ANOTHER MEMBER STATE UNDER SECTION 2 (1), UNDER 3, SUB IV OR V, OF DIRECTIVE 2003/71/EG. WHERE USED IN THIS PARAGRAPH, A "MEMBER STATE" SHALL MEAN A MEMBER STATE OF THE EUROPEAN UNION AS WELL AS A STATE, NOT BEING AN EU MEMBER STATE THAT IS A PARTY TO THE EUROPEAN ECONOMIC AREA AGREEMENT;

- (B) AN OFFER OF THE SECURITIES ADDRESSED TO LESS THAN 100 NATURAL OR LEGAL PERSONS PER MEMBER STATE (EXCLUDING QUALIFIED INVESTORS);
- (C) AN OFFER OF THE SECURITIES ADDRESSED TO INVESTORS WHO ACQUIRE SECURITIES FOR A TOTAL CONSIDERATION OF AT LEAST EUR 50,000 PER INVESTOR, FOR EACH SEPARATE OFFER;
- (D) THE NOMINAL CONSIDERATION PER SECURITY BEING AT LEAST EUR 50,000;
OR
- (E) THE TOTAL VALUE OF THE OFFERED SECURITIES AMOUNTS TO LESS THAN EUR 100,000, SUCH AMOUNT TO BE CALCULATED OVER A PERIOD OF TWELVE MONTHS.

NOTICE TO RESIDENTS OF THE EUROPEAN ECONOMIC AREA

IN RELATION TO EACH MEMBER STATE OF THE EUROPEAN ECONOMIC AREA WHICH HAS IMPLEMENTED THE PROSPECTUS DIRECTIVE (EACH, A “RELEVANT MEMBER STATE”), WITH EFFECT FROM AND INCLUDING THE DATE ON WHICH THE PROSPECTUS DIRECTIVE IS IMPLEMENTED OR APPLIED IN THAT RELEVANT MEMBER STATE (THE “RELEVANT IMPLEMENTATION DATE”), NO OFFER OF THE OFFERED SECURITIES HAS BEEN MADE OR WILL BE MADE TO THE PUBLIC IN THAT RELEVANT MEMBER STATE PRIOR TO THE PUBLICATION OF THE PROSPECTUS IN RELATION TO THE OFFERED SECURITIES WHICH HAS BEEN APPROVED BY THE COMPETENT AUTHORITY IN THAT RELEVANT MEMBER STATE OR, WHERE APPROPRIATE, APPROVED IN ANOTHER RELEVANT MEMBER STATE AND NOTIFIED TO THE COMPETENT AUTHORITY IN THAT RELEVANT MEMBER STATE, ALL IN ACCORDANCE WITH THE PROSPECTUS DIRECTIVE AS IMPLEMENTED OR APPLIED IN THE RELEVANT MEMBER STATE, EXCEPT THAT, WITH EFFECT FROM AND INCLUDING THE RELEVANT IMPLEMENTATION DATE, AN OFFER OF THE OFFERED SECURITIES MAY BE MADE TO THE PUBLIC IN THAT RELEVANT MEMBER STATE AT ANY TIME:

- (A) TO LEGAL ENTITIES WHICH ARE AUTHORIZED OR REGULATED TO OPERATE IN THE FINANCIAL MARKETS OR, IF NOT SO AUTHORIZED OR REGULATED, WHOSE CORPORATE PURPOSE IS SOLELY TO INVEST IN SECURITIES;
- (B) TO ANY LEGAL ENTITY WHICH HAS TWO OR MORE OF (1) AN AVERAGE OF AT LEAST 250 EMPLOYEES DURING THE LAST FINANCIAL YEAR; (2) A TOTAL BALANCE SHEET OF MORE THAN EURO 43,000,000 AND (3) AN ANNUAL NET TURNOVER OF MORE THAN EURO 50,000,000, AS SHOWN IN ITS LAST ANNUAL OR CONSOLIDATED ACCOUNTS; OR
- (C) IN ANY OTHER CIRCUMSTANCES FALLING WITHIN ARTICLE 3 OF THE PROSPECTUS DIRECTIVE.

FOR THE PURPOSES OF THIS PROVISION, THE EXPRESSION AN “OFFER OF THE OFFERED SECURITIES TO THE PUBLIC” IN RELATION TO ANY OFFERED SECURITIES IN ANY RELEVANT MEMBER STATE MEANS THE COMMUNICATION IN ANY FORM AND BY ANY MEANS OF SUFFICIENT INFORMATION ON THE TERMS OF THE OFFER AND THE OFFERED SECURITIES TO BE OFFERED SO AS TO ENABLE AN INVESTOR TO DECIDE TO PURCHASE OR SUBSCRIBE FOR THE OFFERED SECURITIES, AS THE SAME MAY BE VARIED IN THAT MEMBER STATE BY ANY MEASURE IMPLEMENTING THE PROSPECTUS DIRECTIVE IN THAT MEMBER STATE AND THE EXPRESSION “PROSPECTUS DIRECTIVE” MEANS DIRECTIVE 2003/71/EC AND INCLUDES ANY RELEVANT IMPLEMENTING MEASURE IN EACH RELEVANT MEMBER STATE.

STATEMENT REGARDING FORWARD-LOOKING DISCLOSURE

This offering memorandum includes forward-looking statements 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. Other than statements of historical facts included in this offering memorandum, all statements, 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 ("B\$"). 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 "2006^(p)" or "Fiscal 2006/2007^(p)" and provisional information for other fiscal years is referred to in a corresponding manner. The fiscal year 2001/2002 through 2004/2005 accounts have been audited by the Auditor-General and have been submitted to Parliament. The Government's fiscal year 2005/2006 accounts have been reviewed by the Auditor-General and are waiting submission to Parliament. The Auditor-General has not yet completed its review of the Government's fiscal year 2006/2007 accounts. Certain economic data for the year ended December 31, 2007 is not available as of the date hereof.

Estimates of Gross Domestic Product, or GDP, and its components that are included in this Offering Memorandum have been prepared by the Department of Statistics of the Commonwealth of The Bahamas.

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 judgments of courts in the United States against The Bahamas. The Government will (1) agree 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 U.S. law, waive any objection to venue of any such legal suit, action or proceeding, and (3) subject to certain exceptions, waive 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 Free National Movement, the current ruling party, which holds parliamentary majority, and the Progressive Liberal Party, which was in office from May 2002 until May 2007. 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 2006 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 2006, The Bahamas attracted over 4.7 million visitors, who spent approximately \$2.0 billion in the country. More than 80% of these visitors were from the United States. Over the past 16 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, 2006, there were 248 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 \$93.1 billion, placing The Bahamas among the top offshore banking centers in the world.

The Department of Statistics estimates that real GDP of The Bahamas grew from 2002 to 2006 at an average annual rate of 2.1%. The Government estimates that nominal GDP increased by 4.5% in 2007 and will increase by 4.0% in 2008, 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 by pursuing sound macroeconomic and fiscal policies that will enhance the competitiveness of the Bahamian economy and facilitate private sector investment and consumption. The key initiatives in implementing this strategy include:

- streamlining the governmental review of private sector investments to expedite the approval process;
- privatizing state-owned commercial entities to stimulate competition and efficiency in certain sectors of the economy;
- enhancing the delivery and quality of public services available to citizens and investors through, among other initiatives, the implementation of comprehensive public sector training programs and improving the accessibility of public information with the goal of creating an environment that is conducive to private sector business development;
- further integrating the Bahamian economy into the global economy by enhancing existing trade relationships and fostering new relationships through, among other things, continuing the negotiation process for membership in the World Trade Organization and entry into new trade agreements, including the Economic Partnership Agreement with the European Union; and
- encouraging and incentivizing foreign investment in certain sectors of the economy, including tourism, property development, information technology, and banking and financial services, among others.

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
(In millions, except percentages)

| | Years Ended December 31, | | | | |
|---|--------------------------|------------------|------------------|--------------------------------|--------------------------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 ^(p) |
| The Economy: | | | | | |
| Nominal GDP ⁽¹⁾ | \$5,389.4 | \$5,512.4 | \$5,649.6 | \$5,986.2 | \$ 6,237.3 |
| Increase (decrease) in nominal GDP ⁽²⁾ | 4.5% | 3.6% | 2.8% | 5.2% | 4.4% |
| Annual inflation rate | 2.05% | 3.03% | 1.18% | 1.95% | 1.83% |
| Balance of payments | | | | | |
| Current account balance | \$ (423.0) | \$ (472.1) | \$ (305.3) | \$ (856.2) | \$(1,846.0) |
| Capital account balance | \$ 380.5 | \$ 498.0 | \$ 479.8 | \$ 633.2 | \$ 1,140.8 |
| Foreign exchange reserves | \$ 373.2 | \$ 484.3 | \$ 667.8 | \$ 578.8 | \$ 499.8 |
| Estimated increase (decrease) in real GDP ⁽¹⁾ . . | 2.3% | 1.0% | 1.3% | 2.5% | 3.4% |
| | Fiscal | Fiscal | Fiscal | Fiscal | Fiscal |
| | 2002/2003 | 2003/2004 | 2004/2005 | 2005/2006^(p) | 2006/2007^(p) |
| Government Finance: | | | | | |
| Revenue and grants | \$ 901.8 | \$ 943.8 | \$1,039.4 | \$1,221.4 | \$1338.5 |
| Expenditure ⁽³⁾ | \$1,089.4 | \$1,110.1 | \$1,214.9 | \$1,327.5 | \$1,609.3 |
| Overall budget deficit | \$ 187.6 | \$ 166.4 | \$ 175.5 | \$ 106.1 | \$ 182.5 |
| Overall budget deficit as a percentage of nominal GDP ⁽²⁾ | 2.6% | 2.3% | 1.7% | 0.8% | 2.7% |
| | | | | | n.a |
| | Fiscal | Fiscal | Fiscal | Fiscal | Budget |
| | 2002/2003 | 2003/2004 | 2004/2005 | 2005/2006^(p) | 2007/2008 |
| National Debt: | | | | | |
| National debt | \$2,383.3 | \$2,588.8 | \$2,699.2 | \$2,850.6 | \$3,109.4 |
| National debt as a percentage of nominal GDP . | 44.2% | 47.0% | 47.8% | 47.6% | 49.9% |
| Foreign currency public sector debt ⁽⁴⁾ | \$ 565.6 | \$ 616.9 | \$ 581.7 | \$ 553.3 | \$ 633.2 |
| Foreign currency public sector debt as a percentage of nominal GDP | 10.5% | 11.2% | 10.3% | 9.2% | 10.2% |
| Foreign currency public sector debt service ⁽⁵⁾ . . . | \$ 138.4 | \$ 338.0 | \$ 93.3 | \$ 101.3 | \$ 84.8 |
| Foreign currency public sector debt service ratio ⁽⁶⁾ | 5.6% | 13.6% | 3.4% | 3.3% | 2.7% |

(1) Represents data compiled by the Department of Statistics.

(2) Represents Department of Statistics estimates.

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

(4) Includes internal and external foreign currency 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 sector 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: Department of Statistics, Treasury Accounts and Treasury Statistical Summary Printouts.

THE OFFERING

| | |
|---|---|
| Issuer | The Commonwealth of The Bahamas. |
| The Notes | U.S.\$100,000,000 7.125% Notes Due 2038. |
| 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 | 99.865% of the principal amount of the notes. |
| Maturity Date | The notes will mature on April 2, 2038. |
| Interest Payment Dates | The notes will bear interest from their dates of original issuance payable semiannually in arrears on April 2 and October 2 of each year, commencing on October 2, 2008. |
| Status of Notes | The notes will be direct, general, unsecured and unconditional obligations of the Government and will rank <i>pari passu</i> , without any preference or priority of payment, among themselves and with all other present and future unsecured and unsubordinated indebtedness 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"> • 100% of the principal amount of the notes to be redeemed; or • 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. <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 | The net proceeds from the sale of the notes will be used by the Government for financing general development in The Bahamas. |

| | |
|--|---|
| Withholding Taxes | <p>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.”</p> |
| Form, Denomination and Transfer of Notes | <p>The notes will be 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 will be 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 will be represented by a separate Global Note (the “Regulation S Global Note,” and, together with the Restricted 144A Global Note, the “Global Notes”) deposited with the Fiscal Agent as custodian for DTC and registered in the name of DTC’s nominee.</p> <p>DTC will credit 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 will be 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 | The Bank of New York. |
| Governing Law | The notes will be 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 official list of the Luxembourg Stock Exchange, and to have the notes admitted to trading on the Euro MTF market of 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 2,400 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 67% of the population under the age of 65 and approximately 27% 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 trade winds ensure a comfortable temperature during the summer months. The hurricane season generally lasts from June to November. In 2005, Hurricane Wilma caused significant damage to residential property on Grand Bahama Island and some of the Family Islands; however, the tourism industry was largely unaffected by such Hurricane. Prior to such date, the last major hurricane to cause significant damage to the Islands occurred in 1929, with particularly devastating effects to New Providence. The landfall of another major hurricane on New Providence 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.

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 41 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, 2007, the House of Assembly is now comprised of 23 members from the Free National Movement, or the FNM, 17 members from the Progressive Liberal Party, or the PLP, and one independent member. The Rt. Honorable Hubert A. Ingraham, who is leader of the FNM, is the Prime Minister. The Leader of the Opposition is the Rt. Honorable Perry Gladstone Christie 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 19 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 continues to pursue membership with the World Trade Organization, which has granted The Bahamas observer status, and was involved in negotiations regarding the proposed Free Trade Area of the Americas. The Bahamas is also part of the Caribbean Forum of African, Caribbean and Pacific States, or CARIFORUM, which recently completed negotiations of the Economic Partnership Agreement (free trade agreement) with the European Union.

THE ECONOMY

General

The Bahamian economy is highly dependent upon the tourism and financial services industries. These two sectors of the economy together accounted for an estimated 55% of the overall GDP of the country in 2006 and over 60% of employment. Tourism has represented an estimated 40% of GDP over the last five years for which such information is available and has employed, directly or indirectly, over half of the workforce. In 2006, The Bahamas attracted over 4.7 million visitors, who spent approximately \$2.0 billion in the country. More than 80% of these visitors were from the United States. Over the past 16 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 last five years for which such information is available. 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 international “best practices” standards, and to enhance the attractiveness of The Bahamas as an offshore financial services center. The Government sector also plays a significant role in the Bahamian economy, accounting for an estimated 20% of GDP.

The following table sets forth summary GDP information for each of the years from 2002 through 2006.

| | Years Ended December 31, | | | | |
|--|--------------------------|-----------|-----------|-----------|---------------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 ^(p) |
| The Economy: | | | | | |
| Nominal GDP (in millions) ⁽¹⁾ | \$5,389.4 | \$5,512.4 | \$5,649.6 | \$5,986.2 | \$6,237.3 |
| Increase (decrease) in nominal GDP (%) ⁽²⁾ | 4.5% | 3.6% | 2.8% | 5.2% | 4.4% |
| Nominal per capita GDP (in thousands) ⁽¹⁾ | \$ 17.27 | \$ 17.38 | \$ 17.59 | \$ 18.41 | \$ 18.9 |
| Population (in thousands) ⁽¹⁾ | 312 | 317 | 321 | 325 | 330 |
| Estimated increase (decrease) in real GDP (%) ⁽²⁾ . . . | 2.3% | 1.0% | 1.3% | 2.5% | 3.4% |

(1) Represents data compiled by the Department of Statistics.

(2) Represents Department of Statistics estimates.

Source: 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 2007/2008 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 2007/2008 budget envisages an overall budget deficit of approximately \$190 million, as compared with a projected deficit of approximately \$198 million in Fiscal 2007/2008. See “Government Finance.”

Gross Domestic Product

The Department of Statistics estimates that real GDP of The Bahamas grew from 2002 through 2006 at an average annual rate of 2.1%. The Government estimates that nominal GDP increased by 4.5% in 2007 and will increase by 4.0% in 2008. The Government's nominal GDP estimates for 2008 reflect the continued influx of foreign direct investment, particularly in the tourism and resort sector. Such estimates are preliminary and are subject to normal statistical revisions. In recent years, The Bahamas has had low inflation, and the annual inflation rate has been no more than 3.0% 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 2002 through 2006.

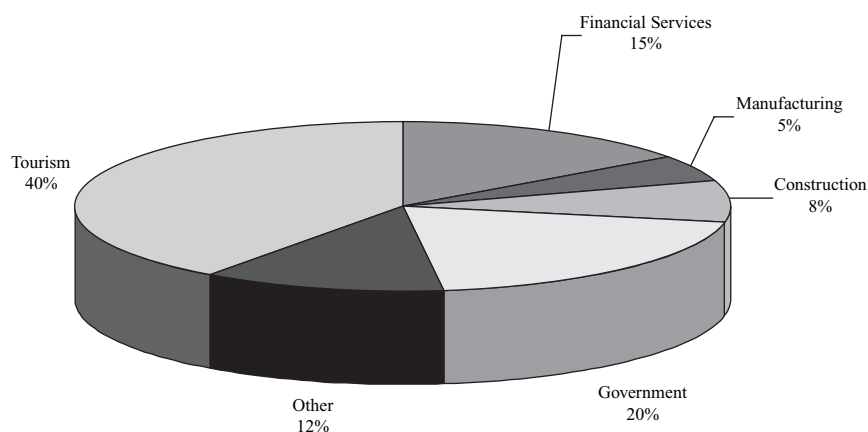
| | Years Ended December 31, | | | | | | | | | |
|--|--|-------------|----------------|-------------|----------------|---------------|----------------|---------------|---------------------|-------------|
| | 2002 | | 2003 | | 2004 | | 2005 | | 2006 ^(p) | |
| | (In millions and as a percentage of nominal GDP) | | | | | | | | | |
| The Economy: | | | | | | | | | | |
| Nominal GDP ⁽¹⁾ | \$5,389 | 100% | \$5,512 | 100% | \$5,649 | 100% | \$5,986 | 100% | \$ 6,237 | 100% |
| Add: Imports of goods and services . . | 2,942 | 54.6 | 3,051 | 55 | 3,321 | 58.8 | 3,988 | 66.6 | 4,865 | 78 |
| Total supply of goods and services . . . | 8,331 | 154.6 | 8,563 | 155 | 8,971 | 158.8 | 9,974 | 166.6 | 11,102 | 178 |
| Less: Exports of goods and services . . | 2,450 | 45.5 | 2,420 | 43.9 | 2,645 | 46.8 | 2,917 | 48.7 | 3,145 | 50 |
| Total goods and services available for domestic expenditure | <u>\$5,881</u> | <u>109%</u> | <u>\$6,143</u> | <u>111%</u> | <u>\$6,326</u> | <u>111.9%</u> | <u>\$7,057</u> | <u>117.9%</u> | <u>\$ 7,957</u> | <u>128%</u> |

(1) Represents data compiled by the Department of Statistics.

Sources: The Central Bank of The Bahamas and the Department of Statistics.

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 2006:



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 2006. With its tropical climate, close proximity to the United States, accessibility and political stability, The Bahamas attracted more than 4.7 million visitors, who spent approximately \$2.0 billion in the country in 2006.

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. As a result of the Government's efforts, The Bahamas has benefited from a steady stream of private investment into the tourism sector, including the launch of the Ginn Development in Grand Bahama in the middle of 2007 and the completion of the third phase of the Atlantis Development in late 2007. In addition, the launches of a Ritz Carlton on Rose Island (off New Providence) and the Baha Mar Development on Cable Beach are expected in early 2008. In the aggregate, these projects account for an estimated \$3.0 billion in new investment in The Bahamas.

The Government has more recently shifted its focus from large scale mixed developments like Atlantis and the proposed Baha Mar Development to smaller eco-friendly developments with a view to encourage Bahamian investors to invest in the tourism sector, particularly in the sparsely populated Family Islands.

The Ministry of Tourism's total budget was approximately \$80.8 million in Fiscal 2006/2007 and is approximately \$82.2 million in Fiscal 2007/2008. In early February 2008, the Government allocated an additional \$12.0 million for the Ministry of Tourism's marketing efforts for the purpose of producing a multi-media campaign targeted primarily at the U.S. market.

The following table sets forth selected data relating to the tourism industry for 2002 through 2006.

| | Years Ended December 31, | | | | |
|---|--|---------|---------|---------|---------|
| | 2002 | 2003 | 2004 | 2005 | 2006 |
| | (\$in millions, visitors in thousands) | | | | |
| Stopover visitors | | | | | |
| Total visitors | 1,513 | 1,510 | 1,561 | 1,608 | 1,600 |
| Increase (decrease) | (1.6)% | (0.2)% | 3.4% | 3.0% | (0.5)% |
| Total expenditures | \$1,603 | \$1,595 | \$1,694 | \$1,884 | \$1,881 |
| Cruise visitors | | | | | |
| Total visitors | 2,802 | 2,970 | 3,360 | 3,079 | 3,076 |
| Increase (decrease) | 9.8% | 6.0% | 13.1% | (8.4)% | (0.1)% |
| Total expenditures | \$ 151 | \$ 157 | \$ 186 | \$ 180 | \$ 172 |
| Total visitors ⁽¹⁾ | 4,406 | 4,594 | 5,004 | 4,779 | 4,731 |
| Increase (decrease) | 5.3% | 4.3% | 8.9% | (4.5)% | (1.0)% |
| Total expenditures ⁽²⁾ | \$1,760 | \$1,757 | \$1,885 | \$2,069 | \$2,056 |
| Increase (decrease) | 6.8% | (0.2)% | 7.3% | 9.8% | (0.6)% |

(1) Includes stopover, cruise and day visitors.

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

Sources: Ministry of Tourism and The Central Bank of The Bahamas.

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. The number of cruise visitors decreased by approximately 0.1% and 8.4% in 2006 and 2005, respectively, compared to an approximately 13.1% increase in 2004. This decline was attributed to the several major cruise lines shifting vessels away from the Caribbean in favor of Mediterranean ports of call, and the introduction of a larger class of vessel, which is currently too large to be accommodated by Bahamian ports. The Government is, however, currently making plans to dredge the main port of entry for cruise ships in order to accommodate such vessels. The more lucrative stopover traffic decreased by an estimated 0.5% in 2006 as compared to an increase of approximately 3% in 2005 due, in part, to a shortage in room inventory as a result of several renovation and refurbishment projects, particularly in New Providence. In 2006, tourism expenditures decreased by 0.6% to approximately \$2.056 billion following a significant increase of 9.8% to approximately \$2.069 billion in 2005. Total arrivals to The Bahamas decreased by roughly 1% to approximately 4.7 million tourists in 2006 compared to a decline of almost 4.5% in 2005. Expenditures in the cruise visitor segment decreased by approximately 4.4% in 2006 compared to a decline of approximately 3.2% in 2005. Stopover visitors accounted for approximately 91% of total expenditures in 2006.

The Government anticipates that the recent downturn in the U.S. economy may result in a decrease in visitors from the U.S. However, the Government also expects that the recent decline in the value of the U.S. dollar will result in an increase in tourism in The Bahamas by non-U.S. travelers later this year, thereby offsetting the decline in U.S. visitors. 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.

Financial Services

The financial services sector is the second largest private sector segment of the Bahamian economy, in terms of its contributions to GDP and employment. In 2006, this sector accounted for an estimated 15% of GDP and employed an estimated 5% 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, 2006, 248 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 248 in 2006 from 250 in 2005. Of these 248 institutions, 143 were public financial institutions, consisting of 90 Bahamian incorporated Eurocurrency operations, 31 Eurocurrency branches of foreign banks, and 22 authorized

dealers and agents. These institutions carry out a variety of operations ranging from retail banking to portfolio management and trust services. The remaining 105 institutions are restricted, non-active or nominee licensees. As of December 31, 2006, the total asset base of offshore banking and trust institutions was estimated to be approximately \$340.6 billion, placing The Bahamas among the top offshore banking centers in the world. Government revenues derived from license fees decreased by 4.8% in fiscal year 2005, but remained stable in 2006. Meanwhile total employment in the sector has grown on average by 3.1% since 2004.

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 699 in 2005 to 725 in 2006. The value of assets under management also rose approximately 17% to approximately \$205 billion in 2006. In the insurance sector, the number of registered insurance companies increased by fifteen in 2006 to a total of 205.

Construction and Manufacturing

The construction sector accounted for an estimated 8% of the GDP of The Bahamas and employed an estimated 22% of the workforce in 2006. The following table sets forth the construction activity in The Bahamas for 2002 through 2006.

| | Year Ended December 31, | | | | |
|-------------------------------|-------------------------|---------|---------|---------|---------------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 ^(p) |
| Building Permits: | | | | | |
| Number | 3,016 | 3,006 | 3,361 | 3,298 | 3,236 |
| Value (in millions) | \$529.4 | \$447.6 | \$540.6 | \$532.4 | \$834.5 |
| Building Starts: | | | | | |
| Number | 1,324 | 1,485 | 1,224 | 1,374 | 1,492 |
| Value (in millions) | \$275.8 | \$256.6 | \$174.6 | \$208.9 | \$249.2 |
| Building Completions: | | | | | |
| Number | 1,602 | 1,632 | 1,504 | 1,672 | 1,869 |
| Value (in millions) | \$304.8 | \$266.0 | \$270.9 | \$314.3 | \$304.8 |

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

The construction sector has benefited from a recent surge of private investment in resort and residential properties, including the launch of the Ginn Development in Grand Bahama in the middle of 2007 and the completion of the third phase of the Atlantis Development in late 2007. The construction sector is expected to continue to be strong in the medium term, with several additional residential and large hotel developments, such as the Albany Development in Southwest New Providence, the Ritz Carlton on Rose Island (off New Providence) and the Baha Mar Development on Cable Beach, scheduled to begin or accelerate construction activities during 2008.

The manufacturing sector accounted for an estimated 5% of the GDP of The Bahamas and employed an estimated 2% of the workforce in 2006. The manufacturing industry, which is mostly of a "niche" type, is comprised of both manufacturers producing goods for the local market and those producing goods almost exclusively for export. The manufacturers that produce goods for the local market are primarily small, locally-owned industries, producing, among others, the following types of goods: (i) mattress and pillow manufacturing, (ii) paper converting, (iii) ice, soft drink, perfume, clothing and crystal production and (iv) printing and publishing. Those manufacturers producing goods for export are primarily foreign owned manufacturers, such as a rum factory (owned by Bacardi & Company Ltd.) and a salt mining facility (owned by Morton International, Inc.). In August 2007, Bacardi announced its intention to close its rum distillery in The Bahamas and transfer manufacturing operations to facilities elsewhere in the Americas by April 2009.

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 20% of the workforce. The Government participates in the communications, transportation, utilities, hotel and banking industries through its ownership of an estimated 24 public corporations and statutory bodies. 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. See “Government Enterprises” for a discussion of certain major public corporations.

Other

The remaining 12% of the Bahamian economy is derived from agriculture and fisheries (which accounts for approximately 3% of GDP), non-tourism-related transportation and communication services (which accounts for approximately 5% of GDP), and other commercial, personal and social services (which accounts for approximately 4% of GDP).

Economic Policies and Strategy

The Government’s overall strategy is to promote the long-term economic development of The Bahamas by pursuing sound macroeconomic and fiscal policies that will enhance the competitiveness of the Bahamian economy and facilitate private sector investment and consumption. The key initiatives in implementing this strategy include:

- streamlining the governmental review of private sector investments to expedite the approval process;
- privatizing state-owned commercial entities to stimulate competition and efficiency in certain sectors of the economy;
- enhancing the delivery and quality of public services available to citizens and investors through, among other initiatives, the implementation of comprehensive public sector training programs and improving the accessibility of public information with the goal of creating an environment that is conducive to private sector business development;
- further integrating the Bahamian economy into the global economy by enhancing existing trade relationships and fostering new relationships through, among other things, continuing the negotiation process for membership in the World Trade Organization and entry into new trade agreements, including the Economic Partnership Agreement with the European Union; and
- encouraging and incentivizing foreign investment in certain sectors of the economy, including tourism, property development, information technology, and banking and financial services, among others.

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. In connection with its commitment to adhering to such policies, the Government is committed to maintaining its current investment grade sovereign credit ratings from both Moody’s and Standard & Poor’s. As such, the Government is dedicated to eliminating its deficit over the medium term and reducing the growth rate of its debt, thereby decreasing the Commonwealth’s debt-to-GDP ratio. As part of this effort, the Commonwealth has been reviewing the amount of concessions (such as tax waivers) made available by the Government and, where appropriate, has begun phasing out previously granted concessions. In doing so, the Government will enhance its ability to service its outstanding debt without the need to introduce new taxes.

The Government has a history of successfully using tax and other incentives to promote growth, and does not propose to change this strategy at this time. Over the medium term, the Government seeks to ensure that incentives from large scale investments are not granted disproportionately. To achieve this goal the Government is committed to reviewing all of its incentive legislation. This review would allow the Government to introduce incentives tailored to the needs of citizens and investors.

In addition, the Government remains focused on its objective of establishing a tax regime that is consistent with its goal of integration with the global economy. In addition to analyzing the feasibility of introducing a value added tax, or VAT, the Government has indicated its intention to introduce an excise tax regime in the next fiscal period. Such excise tax regime would be designed to ring fence high revenue items from tariff reduction negotiations with respect to international trade agreements (excise taxes are normally outside the scope of international trade negotiations).

Employment and Labor

The following table sets forth the annual average rate of unemployment in The Bahamas for 2002 through 2006.

| | Years Ended December 31, | | | | |
|-------------------------------------|--------------------------|------|------|------|---------------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 ^(p) |
| Average unemployment rate | 9.1 | 10.8 | 10.2 | 10.2 | 7.6 |

Source: Department of Statistics.

The Government has projected that the unemployment rate will continue to remain relatively flat in a range between 7.6% and 8.0% over the next several years before gradually declining. The Government's projections for unemployment are based primarily on employment creation due to the high level of foreign direct investment in the tourism and resort sector over the last three years.

The average household income in The Bahamas for 2006 and 2005 was \$43,420 and \$38,891, respectively.

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 1.83% in 2006. Accelerated price increases for education costs and furniture and household goods in 2006 were offset by slowed cost advances on most other goods and services.

Litigation

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

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. In 2007, the Office of the U.S. Trade Representative removed The Bahamas from the Priority Watch List, citing the Government's improvement in the enforcement of intellectual property rights.

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, 2006, the financial system of The Bahamas consisted of 248 bank and trust companies that were licensed to operate within or from within the country, of which 143 were public financial institutions and 105 were restricted, non-active or nominee licensees. Banking activities dominate the financial services sector in The Bahamas.

Of the 248 banks and trust companies licensed in The Bahamas as of December 31, 2006, 22 are permitted to conduct operations in the domestic market. These comprise eight commercial banks that are authorized to deal in foreign currency, one savings and loan institution and 13 trust companies, whose domestic activities are limited. As of December 31, 2006, total commercial bank domestic assets were approximately \$7.8 billion. The operations of Bahamian domestic banks include a large offshore component, with the commercial bank foreign assets totaling approximately \$93.1 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 according to Government estimates, accounted for an estimated 15% of the country’s GDP in 2006. 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.

Monetary Policy

The Central Bank conducts the monetary policy of The Bahamas. The Central Bank’s monetary policy objective 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 allowed banks to provide new credit only to the extent possible from repayments on existing loans or advances, and required the bank's total amount of loans and advances outstanding to remain within prescribed limits. The ceiling was lifted in August 2004, based on the improved outlook for the Bahamian economy, particularly with respect to tourism and foreign investment.

The following table sets forth the monetary and credit aggregates for 2002 through 2006.

| | Years Ended December 31, | | | | |
|---|--------------------------|------------|------------|------------|---------------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 ^(p) |
| | (In millions) | | | | |
| Currency in active circulation | \$ 154.8 | \$ 160.1 | \$ 176.6 | \$ 195.3 | \$ 202.1 |
| Demand deposits | 662.9 | 747.3 | 957.8 | 1,052.3 | 1,049.0 |
| Money supply (M1) | 817.7 | 907.4 | 1,134.4 | 1,247.6 | 1,251.1 |
| Savings deposits | 630.7 | 678.8 | 779.9 | 881.8 | 953.3 |
| Fixed deposits | 2,296.2 | 2,315.9 | 2,410.3 | 2,556.6 | 2,781.5 |
| Money supply (M2) ⁽¹⁾ | 3,744.6 | 3,902.0 | 4,324.6 | 4,686.0 | 4,985.9 |
| Foreign currency deposits | 91.6 | 101.2 | 96.9 | 144.2 | 159.1 |
| Money supply (M3) ⁽²⁾ | \$3,836.2 | \$4,003.3 | \$4,421.5 | \$4,830.2 | \$5,145.1 |
| Private sector credit | \$4,069.6 | \$4,094.6 | \$4,339.4 | \$4,953.7 | \$5,668.7 |
| Net credit to Government | 651.4 | 506.5 | 547.1 | 642.5 | 677.0 |
| Credit to rest of public sector | 219.4 | 372.9 | 340.7 | 303.3 | 397.2 |
| Total domestic credit | \$4,940.4 | \$4,974.0 | \$5,227.2 | \$5,899.5 | \$6,742.9 |
| Other net external liabilities ⁽³⁾ | \$ (730.5) | \$ (628.1) | \$ (563.5) | \$ (611.0) | \$ (754.1) |
| Official foreign reserves | 373.2 | 484.3 | 667.8 | 578.8 | 499.7 |
| Bank liquidity | 88.9 | 128.9 | 271.6 | 191.5 | 117.2 |

(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 approximately 6.5% in 2006 from approximately 9.2% and 10.4% in 2005 and 2004, respectively, primarily as a result of increased borrowing by the private sector and reduced net foreign currency inflows. In 2006, gains in fixed deposits outpaced the growth in savings deposits and a marginal contraction in demand deposits.

Personal loans have accounted for over 60% of overall domestic bank credit over the past five 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 (6.8%), tourism (4.2%), wholesale and retail trade (3.6%), and professional services (2.6%) as of December 31, 2006.

Foreign currency loans of the domestic banks have grown steadily over the past five years, moving from approximately \$728.3 million in 2002 to approximately \$764.3 million as of December 31, 2006, representing an average annual growth rate of nearly 1.6%.

The following table sets forth the Government's currency reserves as of December 31, 2007.

| | <u>As of December 31, 2007</u> |
|----------------------------------|--------------------------------|
| | <u>(In thousands)</u> |
| Balance with banks | \$ 59,378 |
| Foreign securities | 384,504 |
| IMF reserves tranche | 9,893 |
| Special drawing rights | 90 |
| Total reserves | <u>\$453,865</u> |

Source: The Central Bank of The Bahamas.

Bank Regulation and Supervision

The Central Bank licenses and supervises banks and trust companies and is responsible for ensuring the safety and soundness of its licensees and the stability of the financial system. The Central Bank's supervisory and regulatory powers are detailed in the Banks and Trust Companies Regulation Act, 2000, or BTCRA. Specifically, section 13 of the BTCRA identifies the duties of the Inspector of Banks and Trust Companies, which include on-site and off-site examinations of licensed banks and trust companies. The First Schedule of the Act expands further and identifies the "Rules for Inspection and Supervision of Banks." These rules describe the key components of the supervisory program, including reviews of liquidity and solvency, risk management practices and internal controls, and establishing prudent standards for safety and soundness. Where appropriate, the Central Bank has formalized these rules into guidelines and regulations, based on the criteria set out in the Basel Core Principles for Effective Banking Supervision. The Central Bank is a member of the Caribbean Group of Banking Supervisors, the Offshore Group of Banking Supervisors, and the Association of Banking Supervisors of the Americas (a regional group of banking supervisors covering North America, Latin America and the Caribbean).

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, 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 surveillance, prudential dialogues, external audits, on-site examinations 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.

In response to certain concerns expressed by various international agencies relating to The Bahamas' anti-money laundering efforts and oversight of offshore financial services providers, in 2000, the Government instituted a series of legislative enactments to bolster regulations and reinforce restrictions applicable to money laundering activities and the offshore financial services sector. As a result of Parliament's adoption of the Central Bank of The Bahamas Act and the Banks and Trust Companies Regulation Act, the Central Bank's supervisory role has grown in the last few years. Following the approval of this legislation, the Central Bank launched an ambitious on-site examination program, which initially focused on the evaluation of anti-money laundering systems and verification of

banks and trust companies' compliance with physical presence requirements. Since August 2001, the on-site examination process has focused on the adequacy of banks and trust companies' general risk management, corporate governance structure, internal controls, safety and soundness and compliance with anti-money laundering policies and procedures. Pursuant to this program, the Central Bank conducted 39 examinations in 2005, 38 examinations in 2006, and 81 examinations in 2007. 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 Central Bank issued new minimum physical presence guidelines for banks and trust companies operating in The Bahamas. The guidelines, which became 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 were 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 became effective on December 31, 2003. The guidelines require bank and trust company licensees to implement comprehensive risk management controls and systems, and outline 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 \$1.00 and \$1.0025, 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. As a member of the IMF, The Bahamas has agreed not to impose restrictions on current account transactions, although exchange controls are used to monitor developments in this area.

The Government has pursued a policy of gradual liberalization of exchange controls, instituting several rounds in 1995, 2002, and 2007, designed to progressively liberalize the system. Although the Government has expressed its intention to eliminate exchange controls altogether, the Government's gradual approach to exchange control liberalization remains consistent with the Central Bank's commitment to maintaining the fixed rate parity of the Bahamian dollar with the United States dollar. In connection with such control liberalization measures, commercial banks (authorized dealers) were given broader approval authority for a wide range of current account transactions (personal and business), obviating the need for customers to approach the Central Bank. There has also been a relaxation of certain capital account restrictions with the objective of providing enhanced opportunities for residents to participate in and finance investments overseas, while deepening domestic capital markets. Areas subject to exchange control liberalization include revisions in the investment current market rate, foreign real estate time-share purchases, employee stock option plans (ESOPs)/employee share purchase plans (ESPPs), emigration, funding and investment guidelines for temporary residents and permanent residents with restricted right to work, investment in securities publicly traded on foreign exchanges and listed on the Bahamas International Securities Exchange, such as Bahamian

Depository Receipts, regional cross border listings, a National Insurance Board overseas investment program, and resident designated entities' investments in private and public sector securities.

Regarding 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 12.5% 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. In addition, with respect to any capital gains realized on the investment, the investor, under current bid and offer rates, would be entitled to a premium of 10% on the original capital invested in the foreign holdings. Purchases and sales of foreign currency in the Investment Currency Market, which is administered by the Banking Department of the Central Bank of The Bahamas, totaled approximately \$3.3 million and \$0.3 million, respectively, during the year ended December 31, 2006. 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.

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, while authorized dealers are subject to exchange control guidelines with respect to their lending in foreign currency to residents. Residents must obtain the specific approval of the Central Bank to acquire property outside The Bahamas, and these purchases are normally expected to 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 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.

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 closed 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 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 2002 through 2006.

| | Years Ended December 31, | | | | |
|--|--------------------------|------------------|------------------|------------------|---------------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 ^(p) |
| | (In millions) | | | | |
| Imports:⁽¹⁾ | | | | | |
| Food and live animals | \$ 285.0 | \$ 284.9 | \$ 309.7 | \$ 329.5 | \$ 373.7 |
| Beverages and tobacco | 54.1 | 54.7 | 48.2 | 66.5 | 63.9 |
| Crude materials (except fuel) | 45.5 | 42.5 | 52.5 | 68.1 | 80.1 |
| Mineral fuels, lubricants, etc. | 237.6 | 257.3 | 286.4 | 507.8 | 605.4 |
| Animal and vegetable oils | 3.6 | 4.2 | 4.9 | 5.6 | 6.1 |
| Chemicals | 166.4 | 175.8 | 178.6 | 219.7 | 269.1 |
| Manufactured goods | 278.3 | 268.5 | 299.0 | 392.8 | 481.0 |
| Machinery and transport equipment | 407.0 | 429.3 | 421.8 | 567.0 | 665.9 |
| Miscellaneous and other items | 235.7 | 246.5 | 287.8 | 313.3 | 320.3 |
| Other commodities and transportation | 125.3 | 110.5 | 87.7 | 97.0 | 119.3 |
| Total imports | <u>\$1,838.5</u> | <u>\$1,874.2</u> | <u>\$1,976.5</u> | <u>\$2,567.2</u> | <u>\$2,984.9</u> |
| Exports:⁽¹⁾ | | | | | |
| Domestic exports | | | | | |
| Crawfish, fish and other crustaceans | \$ 91.5 | \$ 108.2 | \$ 87.1 | \$ 77.4 | \$ 92.3 |
| Rum/cordials and liqueurs | 37.9 | 37.0 | 32.1 | 16.7 | 8.6 |
| Other domestic exports | 99.6 | 119.0 | 121.0 | 176.7 | 153.5 |
| Total domestic exports | 229.0 | 264.1 | 240.2 | 270.8 | 305.6 |
| Re-exports ⁽²⁾ | | | | | |
| Mineral fuels, lubricants, etc. | 90.6 | 24.5 | 37.7 | 40.6 | 93.0 |
| Chemicals | 18.2 | 14.4 | 12.9 | 22.3 | 23.9 |
| Machinery and transport equipment | 31.9 | 41.6 | 49.1 | 46.5 | 58.9 |
| Other | 19.2 | 20.2 | 61.3 | 48.5 | 28.1 |
| Total re-exports | 159.8 | 100.7 | 161.1 | 157.8 | 203.9 |
| Total exports | <u>\$ 388.8</u> | <u>\$ 364.8</u> | <u>\$ 410.3</u> | <u>\$ 428.7</u> | <u>\$ 509.4</u> |

(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 approximately 65% of non-oil exports and accounted for roughly 92% of all imports in 2006. Corresponding numbers for the European Union were 20% and 2%, respectively, and for other countries (among them, the UK, Canada, Caribbean countries and others) were 15% and 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 2002 through 2006.

| | Years Ended December 31, | | | | |
|---|--------------------------|------------------|------------------|------------------|---------------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 ^(p) |
| | (In millions) | | | | |
| Imports:* | | | | | |
| United States | \$1,483.2 | \$1,448.5 | \$1,547.6 | \$1,900.1 | \$2,190.2 |
| United Kingdom | 8.7 | 16.5 | 11.0 | 15.2 | 11.2 |
| Canada | 11.2 | 14.6 | 14.0 | 14.0 | 24.9 |
| Caribbean Commonwealth | 11.7 | 14.0 | 8.4 | 9.0 | 8.0 |
| European Union (excluding United Kingdom) | 22.6 | 41.5 | 30.0 | 31.2 | 34.8 |
| Other countries | 63.4 | 81.5 | 79.1 | 89.9 | 106.2 |
| Total | <u>\$1,600.8</u> | <u>\$1,616.9</u> | <u>\$1,690.1</u> | <u>\$2,059.3</u> | <u>\$2,375.3</u> |
| Exports:* | | | | | |
| United States | 211.4 | 242.6 | 268.2 | 254.7 | 269.3 |
| United Kingdom | 16.6 | 17.4 | 14.3 | 19.9 | 21.8 |
| Canada | 7.4 | 7.0 | 11.8 | 19.1 | 16.5 |
| Caribbean Commonwealth | 2.6 | 3.1 | 3.3 | 3.5 | 4.1 |
| European Union (excluding United Kingdom) | 41.4 | 51.8 | 46.7 | 67.8 | 82.6 |
| Other countries | 18.8 | 18.6 | 19.2 | 23.1 | 21.6 |
| Total | <u>\$ 298.2</u> | <u>\$ 340.4</u> | <u>\$ 363.6</u> | <u>\$ 388.1</u> | <u>\$ 415.8</u> |

* All export and import data is provisional
Source: The Central Bank of The Bahamas

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 2002 through 2006.

| | Years Ended December 31, | | | | |
|--|--------------------------|-------------|-------------|-------------|---------------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 ⁽¹⁾ |
| (In millions, except percentages) | | | | | |
| Current Account: | | | | | |
| Merchandise Trade (net) | | | | | |
| Exports | \$ 422.1 | \$ 426.5 | \$ 477.4 | \$ 549.0 | \$ 655.6 |
| Imports | 1,748.6 | 1,757.2 | 1,904.9 | 2,399.2 | 2,831.4 |
| Total | \$(1,326.5) | \$(1,330.7) | \$(1,427.5) | \$(1,850.2) | \$(2,175.8) |
| Services (net) | | | | | |
| Travel | \$ 1,515.9 | \$ 1,452.7 | \$ 1,568.9 | \$ 1,724.6 | \$ 1,671.2 |
| Transportation | (178.9) | (187.5) | (249.3) | (312.9) | (310.5) |
| Other | (291.5) | (302.9) | (306.9) | (299.7) | (864.9) |
| Total | \$ 1,045.5 | \$ 962.3 | \$ 1,012.7 | \$ 1,112.0 | \$ 495.8 |
| Income (net) | | | | | |
| Compensation of Employees | \$ (49.8) | \$ (56.3) | \$ (63.3) | \$ (73.2) | \$ (92.8) |
| Investment Income | (134.5) | (96.1) | (78.0) | (130.1) | (125.2) |
| Total | \$ (184.3) | \$ (152.4) | \$ (141.3) | \$ (203.3) | \$ (218.0) |
| Current Transfers (net) | | | | | |
| Government | \$ 49.0 | \$ 53.9 | \$ 59.7 | \$ 59.1 | \$ 58.3 |
| Private | (6.6) | (5.2) | 191.1 | 26.2 | (6.3) |
| Total | 42.4 | 48.7 | 250.8 | 85.3 | 52.0 |
| Current account surplus (deficit) | \$ (423.0) | \$ (472.1) | \$ (305.3) | \$ (856.2) | \$ (1,846.0) |
| Current account surplus (deficit) as a percentage of nominal GDP | (7.8)% | (8.6)% | (5.4)% | (14.3)% | (29.6)% |
| Capital and Financial Account: | | | | | |
| Capital Account (Transfers) | \$ (24.5) | \$ (37.4) | \$ (47.9) | \$ (60.4) | \$ (63.5) |
| Financial Account | 405.0 | 535.4 | 527.7 | 693.6 | 1,204.3 |
| Direct Investment | 152.8 | 190.3 | 442.9 | 563.9 | 705.8 |
| Portfolio Investment | — | — | — | — | (18.8) |
| Other Investment | 252.3 | 345.1 | 84.8 | 129.7 | 517.3 |
| Central Government Long Term Capital Flow (net) | (21.5) | 196.0 | (3.9) | 1.2 | 2.7 |
| Other Public Sector Capital | (13.5) | (143.5) | (16.8) | (9.7) | (6.2) |
| Banks | 183.6 | (102.4) | (64.6) | 47.6 | 143.1 |
| Other | 103.8 | 395.0 | 170.1 | 90.6 | 377.7 |
| Capital account surplus | \$ 380.5 | \$ 498.0 | \$ 479.8 | \$ 633.2 | \$ 1,140.8 |
| Net errors and omissions ⁽¹⁾ | \$ 103.3 | \$ 85.0 | \$ 9.1 | \$ 134.0 | \$ 626.1 |
| Changes in external reserves decrease (increase) .. | \$ (60.8) | \$ (110.9) | \$ (183.6) | \$ 89.0 | \$ 79.1 |

(1) 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 consumer demand for imports. The current account deficit increased in 2006 to approximately \$1,846.0 million from approximately \$856.2 million in 2005 and approximately \$305.3 million in 2004. The goods trade deficit increased in 2006 to approximately \$2,175.8 million from approximately \$1,850.2 million in 2005, as a result of an increase in imports related to tourism investments and local consumption expenditures. The services account surplus decreased to approximately \$495.8 million in 2006 from approximately \$1,112.0 million in 2005 as a result of an increase in other net payments for external services, particularly those in the construction sector, and to a lesser extent a decrease in net travel inflows, including both tourist travel and travel by Bahamians, of approximately 3.1%.

The capital and financial account traditionally runs at a surplus, as private sector investment net inflows usually offset capital transfers and public sector net outflows. The amount of such inflows into the economy has grown steadily from an estimated \$479.8 million in 2004 to approximately \$1,140.8 million in 2006, as a number of large-scale tourism-investment projects were implemented. In 2006, in comparison to the previous year, private direct investments rose by approximately \$141.9 million to roughly \$705.8 million, public sector net external debt servicing totaled \$3.5 million compared to \$8.5 million a year earlier; while other foreign currency borrowings through domestic banks pushed short-term inflows via the banking system higher to \$143.1 million from \$47.6 million in 2005. Moreover, other net "private sector" inflows more than tripled to \$377.7 million.

The following table sets forth the official foreign exchange reserves in each of the years from 2002 through 2006.

| | Years Ended December 31, | | | | |
|---|--------------------------|----------------|----------------|----------------|---------------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 ^(P) |
| | (In millions) | | | | |
| Balances with bankers | \$126.3 | \$183.7 | \$311.1 | \$145.4 | \$ 90.6 |
| Foreign securities | 238.3 | 291.3 | 347.0 | 424.5 | 399.7 |
| Special drawing rights at IMF | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Reserve position at IMF | 8.5 | 9.3 | 9.7 | 8.9 | 9.4 |
| Total | <u>\$373.2</u> | <u>\$484.3</u> | <u>\$667.8</u> | <u>\$578.8</u> | <u>\$499.7</u> |

Source: The Central Bank of The Bahamas.

As of December 31, 2006, external reserves totaled approximately \$499.7 million, representing a decrease of 13.7% as compared with year-end 2005. This decrease is largely the result of an increase in imports and payments related to the tourism investment projects, which offset the increase in capital account inflows. In 2007, given indications of a slowdown in foreign investment inflows and a contraction in travel receipts, The Bahamas foreign reserves fell by approximately \$45.0 million following an estimated \$79.0 million contraction for the same period in 2006. However, The Bahamas continues to have a relatively healthy level of international reserves, which should cushion the Bahamian economy from external shocks.

According to the Central Bank, foreign exchange reserves, substantially all of which are in U.S. dollars, averaged 17.0 months of imports of non-oil merchandise over the period 2002 through 2006.

GOVERNMENT ENTERPRISES

Public Corporations

Traditionally, the Government has played a significant role in the economy through its ownership and management of an estimated 24 public corporations and statutory bodies. 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, 2006, the total debt of the public corporations was approximately \$714.9 million, of which approximately \$490.1 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.

None of the public corporations has ever defaulted on the payment of principal or interest under any loan agreement and the Government has never been required, as guarantor, to cure any payment defaults. However, the Government is providing financial assistance totaling \$30.0 million for Fiscal 2007/2008 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 technical 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, each of which is wholly owned by the Government unless otherwise indicated below. 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, 2006, BEC had total assets of approximately \$733.3 million, total liabilities of approximately \$444.9 million and total shareholder's equity of approximately \$288.3 million. BEC had a net loss for the fiscal year ended September 30, 2006 of approximately \$2.9 million.

The Hotel Corporation of The Bahamas, or the Hotel Corporation, currently owns one hotel. As of December 31, 2005, the Hotel Corporation had total assets of approximately \$14.2 million, total liabilities of approximately \$48.5 million and total shareholder's deficit of approximately \$34.3 million. For the year ended December 31, 2005, the Hotel Corporation had a net loss of approximately \$37.8 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, 2006, WSC had total assets of approximately \$150.3 million, total liabilities of

approximately \$68.2 million and total shareholder's equity of approximately \$82.1 million. For the year ended December 31, 2006, WSC had net income of approximately \$0.8 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, 2006, Bahamasair had total assets of approximately \$34.1 million, total liabilities of approximately \$104.1 million and total shareholder's deficit of approximately \$70.0 million (comprising capital contributions of approximately \$318.7 million and an accumulated deficit of approximately \$398 million). For the fiscal year ended June 30, 2006, Bahamasair had a net loss of approximately \$19.9 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, 2006, BTC had total assets of approximately \$613.0 million, total liabilities of approximately \$209.8 million and total shareholder's equity of approximately \$403.2 million. BTC's net income for the year ended December 31, 2006 was approximately \$44.0 million.

The Bank of The Bahamas International, or Bank of The Bahamas, provides retail and commercial banking services to the local Bahamian market. The Government owns approximately 51% of the outstanding shares of Bank of The Bahamas and public stockholders own the remaining approximately 49% of the outstanding shares. As of the fiscal year ended June 30, 2006, Bank of The Bahamas had total assets of approximately \$545.2 million, total liabilities of approximately \$470.4 million and total shareholder's equity of approximately \$74.8 million. For the fiscal year ended June 30, 2006, Bank of The Bahamas had net income of approximately \$10.2 million.

The Education Loan Authority provides loans to students attending tertiary institutions. These loans are approved by the Education Committee of the Ministry of Education and are guaranteed by the Government. As of the fiscal year ended June 30, 2007, the Education Loan Authority had total assets of approximately \$58.9 million and total liabilities of approximately \$56.0 million. For the fiscal year ended June 30, 2007, the Education Loan Authority had net income of approximately \$0.8 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, the Bahamas Mortgage Corporation 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, 2006, the Central Bank had total assets of approximately \$726.5 million, total liabilities of approximately \$618.8 million, and capital and reserves of approximately \$107.7 million. For the year ended December 31, 2006, the Central Bank had a net profit of approximately \$7.0 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, 2006, the Bahamas Development Bank had total assets of approximately \$55.8 million, total liabilities of approximately \$55.6 million and total shareholder's equity of approximately \$0.12 million. For the year ended December 31, 2006, the Bahamas Development Bank had a net loss of approximately \$3.3 million. The Bahamas Development Bank currently has accumulated losses of approximately \$7.9 million on non-performing loans. The Bahamas Development Bank is seeking to remedy this situation by increasing its collection efforts.

The Bahamas Mortgage Corporation was established to stimulate, encourage and promote affordable home ownership, and in carrying out its mandate, provides mortgage loans to low-to-moderate income home buyers. This is accomplished by the Bahamas Mortgage Corporation advancing funds to the Government to develop housing subdivisions for low-to-moderate income home buyers. These advances are either converted into mortgages held by the Bahamas Mortgage Corporation or repaid in full if the purchase of the homes are not financed by the Bahamas Mortgage Corporation. As of the fiscal year ended June 30, 2005, the Bahamas Mortgage Corporation had total assets of approximately \$212.6 million and total liabilities of approximately \$130.3 million. For the fiscal year ended June 30, 2005, the net income of the Bahamas Mortgage Corporation was approximately \$1.0 million.

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, 2005, the National Insurance Board had total assets of approximately \$1.39 billion, total liabilities of approximately \$35.6 million and reserves of approximately \$1.35 billion. For the year ended December 31, 2005, the National Insurance Board had net income of approximately \$64.3 million.

Privatization

The Government intends to continue to reduce its role in the economy through privatization. The Government expects to complete, or make substantial progress toward, the privatization of the BTC by the end of the year. In earlier privatization efforts, the Government divested four hotel properties at a total value of approximately \$10.25 million in 1994, divested another hotel property for approximately \$8.5 million in May 1995, and reduced the Government's ownership in Bank of The Bahamas from 100% to approximately 51%, 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 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 for each year 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) for the prior year. 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 2007/2008 Budget

The Fiscal 2007/2008 budget forecasts an overall deficit of \$125.4 million as compared with a similar projected deficit in Fiscal 2006/2007. The budget forecast reflects the Government's estimate that improved revenue administration will yield an additional \$145.4 million in revenues in Fiscal 2007/2008. Total revenues, which are estimated at approximately \$1.484 billion, are expected to exceed the Fiscal 2006/2007 budget by 10.8%. Inclusive of net lending (\$34.4 million) to public corporations, the expenditure target was set at approximately \$1.609 billion, which is approximately \$145.0 million, or 9.9%, above the 2006/2007 budget. Capital spending is budgeted at \$189.7 million. To cover financing

requirements, the Government has planned total new borrowings of \$189.6 million, with \$23.0 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 \$63.9 million, consisting of \$56.0 million in Bahamian dollars and \$7.9 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 2002/2003 through Fiscal 2006/2007 and the budget for Fiscal 2007/2008

| | Fiscal 2002/2003 | Fiscal 2003/2004 | Fiscal 2004/2005 | Fiscal 2005/2006^(p) | Fiscal 2006/2007^(p) | Budget 2007/2008 |
|---|-----------------------------|-----------------------------|-----------------------------|---|---|-----------------------------|
| | (In millions) | | | | | |
| Revenue and Grants: | | | | | | |
| Tax revenue | \$ 815.0 | \$ 831.2 | \$ 925.1 | \$1,094.5 | \$1,204.9 | \$1,351.6 |
| Non-tax revenue | 86.8 | 97.5 | 104.1 | 125.9 | 133.6 | 122.1 |
| Capital revenue | — | 15.0 | 10.2 | — | — | 10.0 |
| Grants | — | — | — | 1.0 | — | 0.2 |
| Total | <u>\$ 901.8</u> | <u>\$ 943.7</u> | <u>\$1,039.4</u> | <u>\$1,221.4</u> | <u>\$1,338.5</u> | <u>\$1,483.9</u> |
| Expenditure: | | | | | | |
| Current expenditure | \$ 962.5 | \$ 994.0 | \$1,053.1 | \$1,149.6 | \$1,285.7 | \$1,385.1 |
| Capital expenditure | 83.8 | 80.9 | 90.4 | 123.4 | 166.2 | 189.7 |
| Total | <u>\$1,046.3</u> | <u>\$1,074.9</u> | <u>\$1,143.5</u> | <u>\$1,273.0</u> | <u>\$1,451.9</u> | <u>1,574.8</u> |
| Net lending (repayment) | 43.1 | 35.2 | 71.4 | 54.5 | 69.1 | 34.4 |
| Overall budget surplus (deficit) | \$ (187.6) | \$ (166.4) | \$ (175.5) | \$ (106.1) | (\$ 182.5) | \$ (125.4) |
| Internal borrowing: | | | | | | |
| Bahamian dollars | | | | | | |
| Treasury bills (net) | — | — | \$ 13.1 | — | 10.0 | — |
| Loans/advances | \$ 19.8 | \$ 34.0 | 5.7 | — | 25.0 | — |
| Government securities | 186.1 | 98.3 | 306.3 | \$ 201.6 | 195.3 | — |
| Total | <u>\$ 205.9</u> | <u>\$ 132.3</u> | <u>\$ 325.1</u> | <u>\$ 201.6</u> | <u>\$ 230.3</u> | <u>\$ 166.6</u> |
| Foreign currency | | | | | | |
| Loans | \$ 25.0 | — | — | \$ 3.4 | — | — |
| Government securities | — | — | — | — | — | — |
| Total | <u>\$ 25.0</u> | <u>—</u> | <u>—</u> | <u>\$ 3.4</u> | <u>—</u> | <u>—</u> |
| Total internal borrowing | <u>\$ 230.9</u> | <u>\$ 132.3</u> | <u>\$ 325.1</u> | <u>\$ 205.0</u> | <u>\$ 230.3</u> | <u>\$ 166.6</u> |
| External borrowing: | | | | | | |
| Loans | \$ 9.4 | \$ 6.7 | \$ 2.9 | \$ 5.3 | \$ 14.6 | \$ 23.0 |
| Government securities | — | \$ 200.0 | — | — | — | — |
| Total external borrowing | <u>\$ 9.4</u> | <u>\$ 206.7</u> | <u>\$ 2.9</u> | <u>\$ 5.3</u> | <u>\$ 14.6</u> | <u>\$ 23.0</u> |
| Debt repayment: | | | | | | |
| Internal | \$ 54.4 | \$ 242.0 | \$ 92.6 | \$ 58.1 | \$ 92.8 | \$ 56.0 |
| Bahamian dollars | 49.4 | 112.0 | 92.6 | 57.2 | 91.0 | 56.0 |
| Foreign currency | 5.0 | 130.0 | — | 0.9 | 1.8 | — |
| Total | <u>\$ 54.4</u> | <u>\$ 242.0</u> | <u>\$ 92.6</u> | <u>\$ 58.1</u> | <u>\$ 92.8</u> | <u>\$ 56.0</u> |
| External | \$ 7.9 | \$ 9.4 | \$ 5.8 | \$ 4.0 | \$ 29.7 | \$ 7.9 |
| Total debt repayment | <u>\$ 62.3</u> | <u>\$ 251.4</u> | <u>\$ 98.4</u> | <u>\$ 62.1</u> | <u>\$ 122.5</u> | <u>\$ 63.9</u> |
| Net borrowing (after debt repayment) | \$ 177.9 | \$ 87.6 | \$ 229.6 | \$ 148.2 | \$ 122.4 | \$ 125.7 |
| Cash balance change increase (decrease) . . . | \$ 15.3 | \$ (33.7) | \$ (45.8) | \$ 39.5 | \$ (7.6) | — |

Source: Treasury Accounts and Treasury Statistical Summary Printouts.

Revenues and Expenditures

The Government's overall deficit increased to approximately \$182.5 million for Fiscal 2006/2007, from approximately \$106.1 million for Fiscal 2005/2006. The Fiscal 2006/2007 deficit was exacerbated by uncertainty surrounding the health of the United States economy. The overall deficit is expected to narrow in Fiscal 2007/2008 as a result of the Government's decision to cut spending by 7.7% and recent measures enacted by the Government to strengthen the collection of customs duties, stamp taxes, real property taxes and taxes on tourism activities.

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 53% 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.

The following table sets forth the Government's current revenues for Fiscal 2002/2003 through Fiscal 2006/2007 and the budget for Fiscal 2007/2008.

| | Fiscal 2002/2003 | Fiscal 2003/2004 | Fiscal 2004/2005 | Fiscal 2005/2006 ^(p) | Fiscal 2006/2007 ^(p) | Budget 2007/2008 |
|---|---------------------|---------------------|---------------------|------------------------------------|------------------------------------|---------------------|
| | (In millions) | | | | | |
| Tax revenue | | | | | | |
| Property tax | \$ 37.1 | \$ 38.1 | \$ 54.6 | \$ 54.7 | \$ 79.4 | \$ 85.6 |
| Selective tax on services | 33.4 | 35.8 | 50.1 | 37.4 | 39.8 | 55.7 |
| Business and professional license | 53.8 | 56.3 | 60.6 | 74.3 | 78.4 | 85.7 |
| Motor vehicle tax | 16.2 | 14.5 | 17.9 | 20.2 | 20.4 | 25.6 |
| Departure tax | 61.7 | 72.0 | 69.4 | 76.4 | 76.9 | 77.8 |
| Import tax | 421.0 | 409.3 | 412.7 | 487.9 | 507.4 | 590.8 |
| Stamp tax from imports | 95.8 | 96.3 | 112.3 | 134.6 | 143.2 | 199.8 |
| Export tax | 12.2 | 13.4 | 12.6 | 14.2 | 14.0 | 15.0 |
| Stamp tax from exports | 0.1 | — | — | — | — | — |
| All other stamp tax | 79.0 | 91.6 | 135.4 | 161.7 | 227.9 | 199.6 |
| Other tax | 11.4 | 10.8 | 14.6 | 15.2 | 22.2 | 16.1 |
| Total tax revenue⁽¹⁾ | <u>\$815.0</u> | <u>\$831.2</u> | <u>\$ 925.1</u> | <u>\$1,094.5</u> | <u>\$1,204.9</u> | <u>\$1,351.6</u> |
| Non-tax revenue | | | | | | |
| Income | \$ 24.4 | \$ 28.3 | \$ 27.1 | \$ 42.0 | \$ 53.0 | \$ 37.6 |
| Public enterprises ⁽²⁾ | 4.2 | 2.7 | 2.3 | 6.7 | 2.5 | 0.0 |
| Other sources | 20.2 | 25.6 | 24.8 | 35.3 | 50.5 | 37.6 |
| Fines, forfeits and admin. fees | 61.3 | 68.5 | 74.9 | 82.1 | 80.1 | 82.3 |
| Sales of Government property | 1.1 | 0.7 | 2.1 | 1.7 | 0.4 | 2.2 |
| Other | — | — | — | 0.1 | 0.1 | — |
| Total non-tax revenue | <u>\$ 86.8</u> | <u>\$ 97.5</u> | <u>\$ 104.1</u> | <u>\$ 125.9</u> | <u>\$ 133.6</u> | <u>\$ 122.1</u> |
| Capital revenue | — | 15.0 | 10.2 | — | — | 10.0 |
| Grants | — | — | — | 1.0 | — | 0.2 |
| Total revenue and grants⁽¹⁾ | <u>\$901.8</u> | <u>\$943.7</u> | <u>\$1,039.4</u> | <u>\$1,221.4</u> | <u>\$ 1338.5</u> | <u>\$1,483.9</u> |

(1) Excludes tax refunds in the amounts of \$6.7 million, \$6.9 million, \$15.2 million, \$(17.8) million, \$4.9 million and \$0.1 million in the Fiscal 2002/2003 through Fiscal 2007/2008 budgets, respectively.

(2) Includes public corporations.

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 18.6% of total spending over the past five years, followed by healthcare and interest payments with 16.2% and 9.8% of total spending, respectively. Outlays on social services approximate 5.4% of total spending.

The following table sets forth the Government's expenditures, by functional classification, for Fiscal 2002/2003 through Fiscal 2006/2007 and budgeted expenditures for Fiscal 2007/2008.

| | Fiscal | | | | | Budget |
|--|------------------|------------------|------------------|--------------------------|--------------------------|------------------|
| | 2002/2003 | 2003/2004 | 2004/2005 | 2005/2006 ^(p) | 2006/2007 ^(p) | 2007/2008 |
| | (In millions) | | | | | |
| General public service: | | | | | | |
| General administration | \$ 183.0 | \$ 166.0 | \$ 176.7 | \$ 228.8 | \$ 233.8 | \$ 283.8 |
| Public order & safety | 124.3 | 133.5 | 141.0 | 147.8 | 172.1 | 188.0 |
| Total general public service | <u>\$ 307.3</u> | <u>\$ 299.5</u> | <u>\$ 317.7</u> | <u>\$ 376.6</u> | <u>\$ 405.9</u> | <u>\$ 471.8</u> |
| Defense | \$ 30.2 | \$ 32.9 | \$ 34.9 | \$ 38.7 | \$ 44.5 | \$ 58.3 |
| Education | \$ 193.2 | \$ 205.4 | \$ 213.7 | \$ 231.5 | \$ 290.5 | \$ 301.6 |
| Health | \$ 169.9 | \$ 177.2 | \$ 193.4 | \$ 198.2 | \$ 253.8 | \$ 261.3 |
| Social benefits and services: | | | | | | |
| General administration reg. research | \$ 14.8 | \$ 14.4 | \$ 16.2 | \$ 15.4 | \$ 17.6 | \$ 20.2 |
| Old age, disability and services | 35.5 | 36.3 | 37.4 | 39.5 | 46.2 | 45.2 |
| Other public assistance | 9.3 | 8.7 | 11.1 | 11.7 | 14.6 | 21.2 |
| Collective social services | 0.5 | 0.4 | 0.5 | 0.6 | 0.5 | — |
| Total social benefits and services | <u>\$ 60.1</u> | <u>\$ 59.8</u> | <u>\$ 65.2</u> | <u>\$ 67.2</u> | <u>\$ 78.9</u> | <u>\$ 86.6</u> |
| Housing | \$ 4.2 | \$ 6.7 | \$ 7.8 | \$ 8.9 | \$ 5.9 | \$ 10.7 |
| Other community and social services | \$ 6.4 | \$ 7.6 | \$ 12.9 | \$ 10.0 | \$ 19.8 | \$ 7.0 |
| Economic services: | | | | | | |
| Agriculture and fisheries | \$ 12.7 | \$ 13.1 | \$ 15.2 | \$ 14.0 | \$ 14.4 | \$ 19.4 |
| Land survey and meteorological | \$ 4.0 | \$ 4.7 | \$ 3.9 | \$ 3.9 | \$ 4.3 | \$ 6.2 |
| Transportation | \$ 18.9 | \$ 20.5 | \$ 18.5 | \$ 40.0 | \$ 40.2 | \$ 26.3 |
| Central ministry | — | — | — | — | 9.6 | — |
| Road transportation division | 3.8 | 4.0 | 4.8 | 5.3 | 5.4 | 7.0 |
| Air transportation | 12.6 | 14.6 | 12.1 | 32.5 | 22.5 | 17.0 |
| Water transportation | 2.5 | 1.9 | 1.6 | 2.2 | 2.7 | 2.3 |
| Post office | 1.8 | 3.1 | 3.8 | 4.7 | 4.1 | 3.2 |
| Labor employment services | 11.8 | 15.1 | 17.6 | 20.9 | 4.2 | 3.7 |
| Communications | — | — | — | — | 0.2 | 0.4 |
| Hotel affairs and services | 0.8 | 0.4 | — | — | — | — |
| Tourism | 64.6 | 67.1 | 68.1 | 74.4 | 80.2 | 82.2 |
| Public works and water supply | 59.9 | 48.9 | 53.3 | 66.7 | 77.8 | 94.0 |
| Total economic services | <u>\$ 174.4</u> | <u>\$ 172.9</u> | <u>\$ 180.4</u> | <u>\$ 225.0</u> | <u>\$ 225.2</u> | <u>\$ 235.5</u> |
| Unallocable: | | | | | | |
| Public debt (interest) | \$ 100.6 | \$ 113.0 | \$ 117.4 | \$ 117.0 | \$ 127.2 | \$ 141.9 |
| Internal | \$ 95.5 | \$ 95.5 | \$ 99.0 | \$ 98.9 | \$ 108.8 | \$ 115.6 |
| Bahamian Dollar | 92.0 | 94.8 | 99.0 | 98.9 | 108.5 | 115.6 |
| Foreign Currency | 3.5 | .7 | — | — | 0.3 | — |
| External | \$ 5.1 | \$ 17.5 | \$ 18.4 | \$ 18.1 | \$ 18.4 | \$ 26.3 |
| Total unallocable | <u>\$ 100.6</u> | <u>\$ 113.0</u> | <u>\$ 117.4</u> | <u>\$ 117.0</u> | <u>\$ 127.2</u> | <u>\$ 141.9</u> |
| Total expenditure | <u>\$1,046.3</u> | <u>\$1,074.9</u> | <u>\$1,143.5</u> | <u>\$1,273.0</u> | <u>\$1,451.9</u> | <u>\$1,574.9</u> |

Source: Treasury Accounts and Treasury Statistical Summary Printouts.

The following table sets forth the Government's expenditure for Fiscal 2002/2003 through Fiscal 2006/2007 and budgeted expenditures for Fiscal 2007/2008.

| | Fiscal | | | | | Budget |
|---|---------------|-----------|-----------|--------------------------|--------------------------|-----------|
| | 2002/2003 | 2003/2004 | 2004/2005 | 2005/2006 ^(p) | 2006/2007 ^(p) | 2007/2008 |
| | (In millions) | | | | | |
| Current expenditure: | | | | | | |
| Consumption | \$ 632.3 | \$ 638.2 | \$ 662.8 | \$ 727.7 | \$ 806.9 | \$ 894.0 |
| Purchases of goods and services | 227.5 | 196.8 | 210.4 | 233.7 | 270.4 | 306.5 |
| Personal emoluments | 404.8 | 441.4 | 452.4 | 494.0 | 536.5 | 587.5 |
| Transfer payments ⁽¹⁾ | \$ 330.2 | \$ 355.8 | \$ 390.3 | \$ 421.9 | \$ 478.8 | \$ 491.1 |
| Interest payments | \$ 100.6 | \$ 113.0 | \$ 117.4 | \$ 117.0 | \$ 127.2 | \$ 141.9 |
| Internal borrowings | \$ 95.5 | \$ 95.5 | \$ 99.0 | \$ 98.9 | 108.8 | \$ 115.6 |
| Bahamian dollars | 92.0 | 94.8 | 99.0 | 98.9 | 108.5 | 115.6 |
| Foreign currency | 3.5 | 0.7 | — | 10.0 | 0.3 | 0.0 |
| External borrowings | \$ 5.1 | \$ 17.5 | \$ 18.4 | \$ 18.1 | \$ 18.4 | \$ 26.3 |
| Subsidies and other transfers | \$ 229.6 | \$ 242.8 | \$ 272.9 | \$ 304.9 | \$ 351.6 | \$ 349.2 |
| Subsidies | 131.1 | 133.5 | 147.7 | 163.0 | 187.2 | 192.6 |
| Transfers to nonfinancial public enterprises ⁽²⁾ | 10.0 | 11.8 | 12.2 | 14.4 | 14.6 | 12.1 |
| Transfers to public corporations ⁽³⁾ | 2.1 | 2.3 | 1.7 | 3.1 | 6.3 | 6.8 |
| Transfers to households | 58.8 | 65.1 | 75.1 | 74.3 | 82.6 | 74.9 |
| Transfers to non-profit institutions | 23.1 | 24.6 | 30.0 | 43.1 | 52.8 | 52.8 |
| Transfers abroad | 4.5 | 5.5 | 6.2 | 7.0 | 8.1 | 10.0 |
| Total current expenditure | \$ 962.5 | \$ 994.0 | \$1,053.1 | \$1,149.6 | \$ 1285.7 | \$1,385.1 |
| Capital expenditure: | | | | | | |
| Capital formation | \$ 62.8 | \$ 49.1 | \$ 57.2 | \$ 80.8 | \$ 109.2 | \$ 120.7 |
| Acquisition of assets | \$ 16.3 | \$ 26.6 | \$ 30.7 | \$ 39.4 | \$ 51.9 | \$ 59.5 |
| Land | 3.7 | 4.7 | 8.6 | 14.4 | 14.4 | 11.3 |
| Equities | 0.0 | 0.0 | 1.1 | 0.7 | 1.0 | 3.0 |
| Other | 12.6 | 21.9 | 21.0 | 24.3 | 36.5 | 45.2 |
| Transfers to nonfinancial public enterprises | 4.0 | 4.8 | 2.5 | 3.2 | 5.1 | 9.5 |
| Transfers to public corporations ⁽⁴⁾ | 0.7 | 0.4 | — | — | — | — |
| Total capital expenditures | \$ 83.8 | \$ 80.9 | \$ 90.4 | \$ 123.4 | \$ 166.2 | \$ 189.7 |
| Total expenditure | \$1,046.3 | \$1,074.9 | \$1,143.5 | \$1,273.0 | \$1,451.9 | \$1,574.8 |

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

(2) Includes the Department of Civil Aviation, the Post Office Department and the Port Department.

(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. Since gaining our 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 lender or investor. However, from time to time the Government has cured defaults on intra-governmental debt between wholly owned Government agencies.

At December 31, 2006, the public sector debt of The Bahamas totaled approximately \$3,109.4 million, including approximately \$490.1 million which represented guaranteed debt of the public corporations, and approximately \$224.8 million which represented non-Government-guaranteed debt of the public corporations. Of the approximately \$2,383.7 million in direct debt obligations of the Government, approximately \$2,092.6 million (or 87.8%) represented debt denominated in Bahamian dollars and the balance of approximately \$291.1 million (or 12.2%) represented debt denominated in foreign currencies, primarily 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 December 17, 2007, which authorizes the Minister of Finance to borrow U.S.\$100.0 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, 2006, the Central Bank’s advances to the Government were approximately \$62.0 million, which represents 6.7% of average ordinary revenue and 4.7% of estimated ordinary revenue. In addition, the Fiscal Reform and Tax Relief Act of 1990 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, 2006, outstanding Treasury Bills amounted to approximately \$192.5 million, which is approximately 20.9% of the average ordinary revenue for the year and approximately 14.4% of the estimated ordinary revenue.

The Government, by legislation, also acts a guarantor for a number of loans to citizens to assist with housing, hurricane re-building, education, small business development and tourism development, and from time to time cures defaults associated with these loans. In connection with each of these loan programs, the borrower is required to pay an annual premium fee that the Government pools into separately designated reserve accounts for each program. The Government utilizes the funds from the requisite reserve account to satisfy defaults under these loans. If, and to the extent that, the amounts in the requisite reserve account are insufficient to satisfy the default, the Government, as guarantor, will cure any defaults. In connection with payment defaults by borrowers under certain education loans made by the Education Loan Authority, a statutory body, the Government is obligated to make payments to cure such defaults and is currently in negotiations to restructure these loans, which negotiations are expected to be completed in two to three months. To the extent that such payments are made, they are reflected in the national budget. To date, payments made by the Government in excess of the established reserves have not been material; however, there can be no assurance that payments made by the Government in excess of the established reserves in the future, including in connection with the restructuring of the loans made by the Education Loan Authority will not be significant.

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 national debt of The Bahamas for 2002 through 2006.

| | Years Ended December 31, | | | | |
|--|--------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 ^(p) |
| | (In millions) | | | | |
| Direct Charge | | | | | |
| External Debt (by Instrument) | | | | | |
| Government Securities | \$ 25.0 | \$ 225.0 | \$ 225.0 | \$ 225.0 | \$ 225.0 |
| Loans | 66.0 | 63.5 | 59.6 | 61.5 | 64.2 |
| Total External Debt | <u>\$ 91.0</u> | <u>\$ 288.5</u> | <u>\$ 284.6</u> | <u>\$ 286.5</u> | <u>\$ 289.2</u> |
| External Debt (by Holder) | | | | | |
| Commercial Banks | \$ 10.3 | \$ 5.2 | — | — | — |
| Offshore Financial Institutions | — | — | — | — | — |
| Bilateral Financial Institutions | — | — | — | — | — |
| International Financial Institutions | 55.7 | 58.4 | 59.6 | 61.5 | 64.2 |
| Private Capital Markets | 25.0 | 225.0 | 225.0 | 225.0 | 225.0 |
| Total External Debt | <u>91.0</u> | <u>288.5</u> | <u>284.6</u> | <u>286.5</u> | <u>289.2</u> |
| Internal Debt (by Instrument) | | | | | |
| Foreign Currency | 130.0 | — | — | — | 1.9 |
| Government Securities | 5.0 | — | — | — | — |
| Loans | 125.0 | — | — | — | 1.9 |
| Bahamian Dollars | 1,580.5 | 1,647.6 | 1,813.3 | 1,948.7 | 2,092.6 |
| Advances | 71.8 | 71.0 | 71.0 | 77.0 | 62.0 |
| Treasury Bill | 179.4 | 179.4 | 179.4 | 192.5 | 192.5 |
| Government Securities | 1,304.1 | 1,386.9 | 1,552.6 | 1,669.0 | 1,829.9 |
| Loans | 25.2 | 10.2 | 10.2 | 10.2 | 8.2 |
| Total Internal Debt | <u>\$1,710.5</u> | <u>\$1,647.6</u> | <u>\$1,813.3</u> | <u>\$1,948.7</u> | <u>\$2,094.5</u> |
| Internal Debt (by Holder) | | | | | |
| Foreign Currency | \$ 130.0 | — | — | — | \$ 1.9 |
| Commercial Banks | 130.0 | — | — | — | 1.9 |
| Other Local Financial Institutions | — | — | — | — | — |
| Bahamian Dollars | 1,580.5 | 1,647.6 | 1,813.3 | 1,948.7 | 2,092.6 |
| The Central Bank | 182.8 | 114.8 | 149.5 | 149.7 | 190.8 |
| Commercial Banks | 399.7 | 424.0 | 427.9 | 463.4 | 451.0 |
| Other Local Financial Institutions | 3.1 | 3.1 | 4.3 | 4.8 | 5.3 |
| Public Corporations | 619.3 | 673.3 | 717.1 | 763.1 | 764.5 |
| Other | 375.6 | 432.3 | 514.5 | 567.7 | 681.1 |
| Total Internal Debt | <u>\$1,710.5</u> | <u>\$1,647.6</u> | <u>\$1,813.3</u> | <u>\$1,948.7</u> | <u>\$2,094.5</u> |
| Total Foreign Currency Debt* | <u>\$ 221.0</u> | <u>\$ 288.5</u> | <u>\$ 284.6</u> | <u>\$ 286.5</u> | <u>\$ 291.1</u> |
| Total Direct Charge | <u>\$1,801.5</u> | <u>\$1,936.2</u> | <u>\$2,097.9</u> | <u>\$2,235.2</u> | <u>\$2,383.7</u> |
| Contingent Liabilities | | | | | |
| Bahamas Development Bank | 32.1 | 35.8 | 40.5 | 44.1 | 46.0 |
| Bahamas Electricity Corporation | 150.0 | 143.4 | 131.2 | 116.7 | 102.2 |
| Bahamas Water & Sewerage Corp | 37.3 | 35.1 | 31.8 | 24.2 | 22.2 |
| Bridge Authority | 28.0 | 28.0 | 28.0 | 28.0 | 28.0 |
| Broadcasting Corporation | — | — | — | — | — |
| Bahamasair | 45.4 | 43.7 | 37.0 | 28.2 | 19.5 |
| Bahamas Mortgage Corporation | 97.1 | 117.9 | 113.0 | 145.2 | 160.5 |
| Educational Guarantee Fund | 32.7 | 29.7 | 13.6 | 12.1 | 10.8 |
| Education Loan Authority | — | 33.9 | 40.7 | 40.7 | 47.9 |
| Airport Authority | — | — | 6.4 | 38.4 | 39.8 |
| The Clifton Heritage Authority | — | — | — | 24.0 | 24.0 |
| Total Contingent Liabilities | <u>\$ 422.7</u> | <u>\$ 467.5</u> | <u>\$ 442.3</u> | <u>\$ 501.6</u> | <u>\$ 500.9</u> |
| Total National Debt | <u>\$2,224.3</u> | <u>\$2,403.7</u> | <u>\$2,540.2</u> | <u>\$2,736.9</u> | <u>\$2,884.6</u> |

* External plus internal foreign currency debt.

Source: Treasury Accounts and Treasury Statistical Summary Printouts.

As the table shows, total Government debt has increased since 2002, 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.

The following table sets forth (in percentages) Government debt outstanding by remaining maturity as of December 31, 2006.

| <u>Remaining Years Until Maturity</u> | <u>Bahamian Dollar</u> | <u>Foreign Currency</u> |
|---------------------------------------|------------------------|-------------------------|
| Less than 5 | 24.0% | 9.3% |
| 5-10 | 17.9 | 10.5 |
| 10-15 | 23.6 | 4.7 |
| 15 years or more | 34.5 | 75.5 |
| Total | <u>100.0%</u> | <u>100.0%</u> |

Source: The Central Bank of The Bahamas.

Internal Debt

Total direct internal Government debt was approximately \$2,094.5 million as of December 31, 2006, representing an increase of approximately 7.5% over the corresponding amount as of December 31, 2005. 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 2002 through 2006.

| | <u>Years Ended December 31,</u> | | | | |
|--|---------------------------------|------------------|------------------|------------------|---------------------------|
| | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006^(p)</u> |
| | <u>(In millions)</u> | | | | |
| Bahamian Dollars | | | | | |
| The Central Bank | \$ 182.8 | \$ 114.8 | \$ 149.5 | \$ 149.7 | \$ 190.8 |
| Commercial banks | 399.7 | 424.0 | 427.9 | 463.4 | 451.0 |
| Other local financial institutions | 3.1 | 3.1 | 4.3 | 4.8 | 5.3 |
| Public corporations | 619.3 | 673.3 | 717.1 | 763.1 | 764.5 |
| Other | 375.6 | 432.3 | 514.5 | 567.7 | 681.1 |
| Total | <u>\$1,580.5</u> | <u>\$1,647.6</u> | <u>\$1,813.3</u> | <u>\$1,948.7</u> | <u>\$2,092.6</u> |
| Foreign currency | | | | | |
| Commercial banks | 130.0 | — | — | — | 1.9 |
| Other local financial institutions | 125.0 | — | — | — | 1.9 |
| Total | <u>130.0</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>1.9</u> |
| Total internal debt | <u>\$1,710.5</u> | <u>\$1,647.6</u> | <u>\$1,813.3</u> | <u>\$1,948.7</u> | <u>\$2,094.5</u> |

Source: Treasury Accounts and Treasury Statistical Summary Printouts.

As of December 31, 2006, internal debt represented 87.9% of The Bahamas' total direct Government debt. Of the approximately \$2,094.5 million in total internal direct debt of the Government at December 31, 2006, approximately 99.9% was denominated in Bahamian dollars. Between 2002 and 2006, internal direct debt rose by approximately 22.4%.

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 approximately \$289.2 million as of December 31, 2006, representing an increase of approximately 0.9% compared to the corresponding amount as of December 31, 2005. 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.\$25.0 million of 7.35% Notes due 2002 and U.S.\$25.0 million of 7.70% Notes due 2007. The 7.35% Notes matured on April 15, 2002, and were redeemed on such date. Likewise, the 7.70% Notes matured on April 15, 2007 and were redeemed on such date. In July 2003, the Bahamas completed another sovereign note offering in the international capital markets. The Bahamas issued U.S.\$200.0 million of 6.625% Notes due 2033. The 6.625% Notes, which will mature on May 15, 2033, 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 2002 through 2006.

| | Years Ended December 31, | | | | |
|--|--------------------------|----------------|----------------|----------------|---------------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 ^(p) |
| | (In millions) | | | | |
| Commercial banks | \$10.3 | \$ 5.2 | — | — | — |
| Offshore financial institutions | — | — | — | — | — |
| Bilateral | — | — | — | — | — |
| International financial institutions | 55.7 | 58.4 | 59.6 | 61.5 | 64.2 |
| Private capital markets | 25.0 | 225.0 | 225.0 | 225.0 | 225.0 |
| Total | <u>\$91.0</u> | <u>\$288.5</u> | <u>\$284.6</u> | <u>\$286.5</u> | <u>\$289.2</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, 2006, the external debt of the Government and the public corporations accounted for approximately 10.8% of total public sector 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 2002 through 2006.

| | Years Ended December 31, | | | | |
|---|--------------------------|----------------|----------------|----------------|---------------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 ^(P) |
| | (In millions) | | | | |
| Direct Internal Debt | \$130.0 | — | — | — | \$ 1.9 |
| Direct External Debt | 91.0 | 288.5 | 284.6 | 286.5 | 289.2 |
| Total Direct Debt | <u>\$221.0</u> | <u>\$288.5</u> | <u>\$284.6</u> | <u>\$286.5</u> | <u>\$291.1</u> |
| Government-guaranteed debt of Public Corporations | <u>\$238.4</u> | <u>\$228.4</u> | <u>\$215.3</u> | <u>\$221.2</u> | <u>\$196.4</u> |
| Total Public Sector Debt | <u>\$459.4</u> | <u>\$516.9</u> | <u>\$499.9</u> | <u>\$507.7</u> | <u>\$487.5</u> |
| Non-Government-guaranteed debt | <u>\$106.2</u> | <u>\$100.0</u> | <u>\$ 81.8</u> | <u>\$ 45.6</u> | <u>\$145.7</u> |
| Total (including non-Government guaranteed debt of public corporations) | <u>\$565.6</u> | <u>\$616.9</u> | <u>\$581.7</u> | <u>\$553.3</u> | <u>\$633.2</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 2002 through 2006.

| | Years Ended December 31, | | | | |
|---|--------------------------|----------------|----------------|----------------|---------------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 ^(P) |
| | (In millions) | | | | |
| Multilateral: | | | | | |
| Inter-American Development Bank | \$196.0 | \$ 69.7 | \$ 69.5 | \$ 70.9 | \$ 73.0 |
| World Bank | 0.6 | — | — | — | — |
| European Union, European Investment Bank | 35.2 | 29.4 | 25.7 | 22.9 | 20.2 |
| Caribbean Development Bank | 21.2 | 19.4 | 20.4 | 18.2 | 15.5 |
| Total multilateral | <u>\$253.0</u> | <u>\$118.5</u> | <u>\$115.5</u> | <u>\$112.0</u> | <u>\$108.7</u> |
| Bilateral: | | | | | |
| Export/Import Bank of China | — | — | — | — | — |
| Export Development Corporation | — | — | — | — | — |
| Total bilateral | — | — | — | — | — |
| Commercial | 271.2 | 261.2 | 236.7 | 215.9 | 299.2 |
| Suppliers/Other | 41.4 | 237.3 | 229.4 | 225.5 | 225.3 |
| Total foreign currency public sector debt | <u>\$565.6</u> | <u>\$616.9</u> | <u>\$581.7</u> | <u>\$553.3</u> | <u>\$633.2</u> |

Source: Treasury Accounts and Public Corporations Reports.

The Government has in recent years relied on the IADB to provide financing for a number of its infrastructural development 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, 2006 was as follows:

| <u>Currency</u> | <u>% Share</u> |
|------------------------------------|----------------|
| U.S. dollar | 98.3 |
| Swiss franc | 0.0 |
| Eastern Caribbean dollar | 0.0 |
| European Currency Units | 1.7 |
| Japanese yen | 0.0 |
| Total | <u>100.0%</u> |

Bahamian Dollar Debt

Public sector debt denominated in Bahamian dollars reflected average annual growth of approximately 8.2% between 2002 and 2006. At December 31, 2006, public sector Bahamian dollar-denominated public debt (including the debt of public corporations) consisted of approximately \$2,092.6 million in direct debt from internal loans and securities and a total of approximately \$372.8 million of total public corporation debt (of which approximately \$293.7 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 2002 through 2006.

| | <u>Years Ended December 31,</u> | | | | |
|---|---------------------------------|------------------|------------------|------------------|---------------------------|
| | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>2006^(p)</u> |
| | <u>(In millions)</u> | | | | |
| Total direct debt | \$1,580.5 | \$1,647.6 | \$1,813.3 | \$1,948.7 | \$2,092.6 |
| Government-guaranteed debt | 151.6 | 209.4 | 213.3 | 268.3 | 293.7 |
| Total | 1,732.1 | 1,857.0 | 2,026.6 | 2,217.0 | 2,386.3 |
| Non-Government-guaranteed debt | 52.9 | 85.1 | 77.2 | 68.1 | 79.1 |
| Total (including non-Government guaranteed debt of public corporations) | <u>\$1,785.0</u> | <u>\$1,942.1</u> | <u>\$2,103.8</u> | <u>\$2,285.1</u> | <u>\$2,465.4</u> |

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 are in addition to the Government's direct indebtedness. The Government has never had to make any guaranty payment on any indebtedness of the public corporations. However, from time to time the Government has cured defaults on intra-governmental debt between wholly owned Government agencies.

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 2002 through 2006.

| | Years Ended December 31, | | | | |
|---|--------------------------|----------------|----------------|----------------|---------------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 ^(P) |
| | (In millions) | | | | |
| External debt*: | | | | | |
| Government-guaranteed loans | | | | | |
| Bahamas Electricity Corporation | \$150.0 | \$ 15.4 | \$ 12.8 | \$ 11.1 | \$ 9.4 |
| Water and Sewerage Corporation | 32.2 | 29.9 | 26.6 | 24.2 | 22.2 |
| Bahamas Development Bank | 15.1 | 14.8 | 16.5 | 15.1 | 13.0 |
| Bahamasair | 4.8 | 2.6 | 0.3 | — | — |
| Total | <u>\$202.2</u> | <u>\$ 62.7</u> | <u>\$ 56.2</u> | <u>\$ 50.4</u> | <u>\$ 44.6</u> |
| Non-Government-guaranteed loans | | | | | |
| Bahamas Telecommunication Corp. | \$ — | \$ — | \$ — | \$ — | \$ — |
| Bahamasair | — | — | — | — | — |
| Bahamas Electricity Corporation | 16.2 | 12.1 | 4.0 | — | — |
| Water and Sewerage Corporation | 0.2 | 0.2 | 0.4 | 0.5 | 0.3 |
| Nassau Airport Development Company | — | — | — | — | — |
| Total | <u>16.4</u> | <u>12.3</u> | <u>4.4</u> | <u>0.5</u> | <u>0.3</u> |
| Total external debt | <u>\$218.5</u> | <u>\$ 75.0</u> | <u>\$ 60.6</u> | <u>\$ 50.9</u> | <u>\$ 44.9</u> |
| Internal debt*: | | | | | |
| Bahamian dollars | | | | | |
| Government-guaranteed loans | | | | | |
| Bahamas Mortgage Corp. | \$ 97.1 | \$117.9 | \$113.0 | \$145.2 | \$160.5 |
| Bahamas Broadcasting Corporation | — | — | — | — | — |
| Bahamas Development Bank | 17.0 | 21.0 | 24.0 | 29.0 | 33.0 |
| Bahamasair | 4.4 | 3.4 | 2.5 | 1.4 | 0.3 |
| Bridge Authority | 28.0 | 28.0 | 28.0 | 28.0 | 28.0 |
| Education Loan Authority | — | 33.9 | 40.7 | 40.7 | 47.9 |
| The Clifton Heritage Authority | — | — | — | 24.0 | 24.0 |
| Water and Sewerage Corporation | 5.2 | 5.2 | 5.2 | — | — |
| Total | <u>\$151.6</u> | <u>\$209.4</u> | <u>\$213.4</u> | <u>\$268.3</u> | <u>\$293.7</u> |
| Non-Government-guaranteed loans | | | | | |
| Bahamas Electricity Corporation | \$ 21.4 | \$ 61.5 | \$ 62.3 | \$ 59.5 | \$ 70.9 |
| Bahamas Telecommunication Corporation | 16.9 | 9.7 | — | — | — |
| Water and Sewerage Corporation | — | — | — | 0.0 | 0.0 |
| Bahamas Development Bank | 6.8 | 6.5 | 7.6 | 7.3 | 7.0 |
| Hotel Corporation | 0.9 | 0.5 | 0.5 | 0.5 | 0.5 |
| Bahamasair | 6.9 | 6.9 | 6.8 | 0.8 | 0.7 |
| Bahamas Broadcasting Corporation | — | — | — | — | — |
| Total | <u>\$ 52.9</u> | <u>\$ 85.1</u> | <u>\$ 77.2</u> | <u>\$ 68.1</u> | <u>\$ 79.1</u> |
| Total Bahamian dollar | <u>\$204.5</u> | <u>\$294.5</u> | <u>\$290.6</u> | <u>\$336.4</u> | <u>\$372.8</u> |
| Foreign currency | | | | | |
| Government-guaranteed loans | | | | | |
| Bahamas Electricity Corporation | \$ — | \$128.0 | \$118.4 | \$105.6 | \$ 92.8 |
| Bahamasair | 36.2 | 37.7 | 34.3 | 26.8 | 19.2 |
| Airport Authority | — | — | 6.4 | 38.3 | 39.8 |
| Total | <u>\$ 36.2</u> | <u>\$165.7</u> | <u>\$159.1</u> | <u>\$170.7</u> | <u>\$151.8</u> |
| Non-Government-guaranteed loans | | | | | |
| Bahamas Electricity Corporation | 23.6 | 30.8 | 25.2 | 20.7 | 73.2 |
| Bahamas Telecommunication Corporation | 48.2 | 38.9 | 34.2 | 24.5 | 72.2 |
| Bahamasair | — | — | — | — | — |
| Hotel Corporation | 18.0 | 18.0 | 18.0 | — | — |
| Nassau Airport Development Company | — | — | — | — | — |
| Total | <u>\$ 89.8</u> | <u>\$ 87.7</u> | <u>\$ 77.4</u> | <u>\$ 45.2</u> | <u>\$145.4</u> |
| Total foreign currency | <u>\$126.0</u> | <u>\$253.4</u> | <u>\$236.5</u> | <u>\$215.9</u> | <u>\$297.2</u> |
| Total internal debt | <u>\$330.5</u> | <u>\$547.9</u> | <u>\$527.1</u> | <u>\$552.3</u> | <u>\$670.0</u> |
| Total debt | <u>\$549.0</u> | <u>\$622.9</u> | <u>\$587.7</u> | <u>\$603.3</u> | <u>\$714.9</u> |

* Includes internal and external debt.

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 2002 through 2006.

| | Years Ended December 31, | | | | |
|--|--------------------------|-------|------|------|---------------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 ^(p) |
| | (In percentages) | | | | |
| Foreign currency | | | | | |
| Total debt service as a percentage of exports of goods and non-factor services | 5.6% | 13.6% | 3.5% | 3.4% | 2.7% |
| Debt service/GDP | 2.6 | 6.1 | 1.7 | 1.7 | 1.4 |
| Public sector debt/GDP | 10.5 | 11.2 | 10.3 | 9.2 | 10.2 |
| Bahamian dollars | | | | | |
| Debt service/GDP | 3.4 | 4.0 | 3.4 | 3.6 | 4.1 |
| Public sector debt/GDP | 33.1 | 35.2 | 37.2 | 38.2 | 39.5 |

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

During the six-year period ended December 31, 2006, foreign currency debt service accounted for an average of 2.7% of GDP and Bahamian dollar debt service accounted for an average of 3.7% of GDP. The foreign currency public sector debt to GDP ratio fell from 10.5% in 2002 to 9.2% in 2005, before accelerating to 10.2% in 2006, and the Bahamian dollar public sector debt to GDP ratio increased from 33.1% in 2002 to 38.2% in 2005, followed by an increase to 39.5% in 2006. 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 2002 through 2006.

| | Years Ended December 31, | | | | |
|--|-----------------------------------|----------------|----------------|----------------|---------------------|
| | 2002 | 2003 | 2004 | 2005 | 2006 ^(p) |
| | (In millions, except percentages) | | | | |
| Foreign currency: | | | | | |
| Government | \$ 73.5 | \$151.4 | \$ 26.4 | \$ 21.2 | \$ 24.5 |
| Public corporations | 64.8 | 187.2 | 67.7 | 80.9 | 60.3 |
| Total foreign currency debt service | 138.4 | 338.0 | 94.1 | 102.1 | 84.8 |
| Government debt service to Government revenue | 8.3 | 16.8 | 2.7 | 1.9 | 1.9 |
| Bahamian dollars: | | | | | |
| Government | \$154.7 | \$197.0 | \$153.1 | \$168.2 | \$196.0 |
| Public corporations | 29.1 | 23.4 | 41.8 | 47.5 | 58.7 |
| Total | 183.8 | 220.5 | 194.9 | 215.6 | 254.7 |
| Government Bahamian dollars debt service to Government revenue | 17.4% | 21.9% | 15.9% | 15.0% | 15.0% |
| Total debt service | <u>\$322.2</u> | <u>\$559.1</u> | <u>\$289.0</u> | <u>\$317.7</u> | <u>\$339.5</u> |

* Foreign debt servicing during 2003 includes the refinancing of \$125 million and \$120 million in Government and public corporation debt, respectively.

Source: Treasury Accounts and Public Corporations Reports.

For the six year period ended December 31, 2006, Bahamian dollar debt service requirements grew at an annual average rate of 7.2%; however, between 2003 and 2006, foreign currency debt service declined significantly from approximately \$339.0 million to approximately \$84.8 million, respectively. 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 2003 to 2006, the ratio of foreign currency debt service to Government revenues has declined rapidly from 16.8% to 1.9%. However, the ratio rose in the first nine months of 2007 to 4.5%.

The following table sets forth the projected public sector debt service schedule (including the debt service of the public corporations) as of December 31, 2006.

| | Years Ended December 31, | | | | | | | | |
|-------------------------------|--------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| | (In millions) | | | | | | | | |
| Amortization: | | | | | | | | | |
| Bahamian dollars | | | | | | | | | |
| Government | \$ 62.0 | \$ 63.0 | \$ 61.0 | \$ 60.0 | \$ 70.0 | \$ 57.0 | \$ 80.8 | \$ 81.0 | \$ 85.0 |
| Public corporations | 13.2 | 23.4 | 14.5 | 20.6 | 18.8 | 6.6 | 5.0 | 2.0 | 0.4 |
| Total | <u>\$ 75.2</u> | <u>\$ 86.4</u> | <u>\$ 75.5</u> | <u>\$ 80.6</u> | <u>\$ 88.8</u> | <u>\$ 63.6</u> | <u>\$ 85.8</u> | <u>\$ 83.0</u> | <u>\$ 85.4</u> |
| Foreign currency | | | | | | | | | |
| Government | 31.7 | 28.1 | 9.4 | 10.1 | 9.1 | 8.9 | 8.8 | 8.8 | 9.7 |
| Public corporations | 146.7 | 49.3 | 122.5 | 28.3 | 27.4 | 25.1 | 36.4 | 12.7 | 2.1 |
| Total | <u>178.4</u> | <u>77.4</u> | <u>131.9</u> | <u>38.4</u> | <u>36.5</u> | <u>34.0</u> | <u>45.2</u> | <u>21.5</u> | <u>11.8</u> |
| Total amortization | <u>\$253.6</u> | <u>\$163.8</u> | <u>\$207.4</u> | <u>\$119.0</u> | <u>\$125.3</u> | <u>\$ 97.6</u> | <u>\$131.0</u> | <u>\$104.5</u> | <u>\$ 97.2</u> |
| Interest: | | | | | | | | | |
| Bahamian dollars | | | | | | | | | |
| Government | 58.6 | 127.3 | 123.3 | 119.1 | 115.5 | 112.2 | 106.2 | 101.6 | 96.7 |
| Public corporations | 18.5 | 16.8 | 16.0 | 15.4 | 14.9 | 14.2 | 14.0 | 13.7 | 13.5 |
| Total | <u>77.1</u> | <u>144.1</u> | <u>139.3</u> | <u>134.5</u> | <u>130.4</u> | <u>126.4</u> | <u>120.2</u> | <u>115.3</u> | <u>110.2</u> |
| Foreign currency | | | | | | | | | |
| Government | 18.0 | 17.7 | 18.9 | 19.0 | 18.5 | 18.1 | 17.6 | 17.1 | 16.7 |
| Public corporations | 21.9 | 16.0 | 10.0 | 7.2 | 5.6 | 4.1 | 2.0 | 0.7 | 0.3 |
| Total | <u>39.9</u> | <u>33.7</u> | <u>28.9</u> | <u>26.2</u> | <u>24.1</u> | <u>22.2</u> | <u>19.6</u> | <u>17.8</u> | <u>17.0</u> |
| Total interest | <u>\$117.0</u> | <u>\$177.8</u> | <u>\$168.2</u> | <u>\$160.7</u> | <u>\$154.5</u> | <u>\$148.6</u> | <u>\$139.8</u> | <u>\$133.1</u> | <u>\$127.2</u> |
| Total Debt Service: | | | | | | | | | |
| Bahamian dollars | | | | | | | | | |
| Government | 120.6 | 190.3 | 184.3 | 179.1 | 185.5 | 169.2 | 187.0 | 182.6 | 181.7 |
| Public corporations | 31.7 | 40.2 | 30.5 | 36.0 | 33.7 | 20.8 | 19.0 | 15.7 | 13.9 |
| Total | <u>\$152.3</u> | <u>\$230.5</u> | <u>\$214.8</u> | <u>\$215.1</u> | <u>\$219.2</u> | <u>\$190.0</u> | <u>\$206.0</u> | <u>\$198.3</u> | <u>\$195.6</u> |
| Foreign currency | | | | | | | | | |
| Government | 49.7 | 45.8 | 28.3 | 29.1 | 27.6 | 27.0 | 26.4 | 25.9 | 26.4 |
| Public corporations | 168.6 | 65.3 | 132.5 | 35.5 | 33.0 | 29.2 | 38.4 | 13.4 | 2.4 |
| Total | <u>218.3</u> | <u>111.1</u> | <u>160.8</u> | <u>64.6</u> | <u>60.6</u> | <u>56.2</u> | <u>64.8</u> | <u>39.3</u> | <u>28.8</u> |
| Total debt service | <u>\$370.6</u> | <u>\$341.6</u> | <u>\$375.6</u> | <u>\$279.7</u> | <u>\$297.8</u> | <u>\$246.2</u> | <u>\$270.8</u> | <u>\$237.6</u> | <u>\$224.4</u> |

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 lender or investor. However, from time to time the Government has cured defaults on intra-governmental debt between wholly owned Government agencies. For more information regarding the Government's obligations as guarantor of certain indebtedness of the public corporations, see "—Debt of Public Corporations" above.

USE OF PROCEEDS

The net proceeds from the sale of the notes, estimated to be approximately U.S.\$98,990,000 (before deduction of expenses and fees), will be used by the Government for financing general development in The Bahamas.

DESCRIPTION OF THE NOTES

The notes will be issued under a Fiscal Agency Agreement, dated as of April 2, 2008 (the “Fiscal Agency Agreement”), between the Government and The Bank of New York, 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 will be issued in an aggregate principal amount of U.S.\$100.0 million, will bear interest from April 2, 2008 at a rate per annum of 7.125% and will mature at par on April 2, 2038. Interest on the notes will be payable semiannually in arrears in equal installments on April 2 and October 2 of each year (each such date, a “Payment Date”), commencing on October 2, 2008, to the persons in whose names the notes are registered at the close of business on the March 18 or September 17, as the case may be, preceding each Payment Date. Interest on the notes will be 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, if and for so long as the notes are listed on the official list of 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, if and for so long as the notes are listed on the official list of the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange require, in Luxembourg. The Government may replace a paying agent at any time, subject to the appointment of a replacement paying agent. If a replacement paying agent is appointed, the Government will, if and for so long as the notes are listed on the official list of 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 office of the Fiscal Agent specified on the inside back cover page of this offering memorandum).

Status of the Notes

The notes will be direct, general, unsecured and unconditional obligations of the Government and will rank *pari passu*, without any preference or priority of payment, among themselves and with all other present and future unsecured and unsubordinated 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 are being offered and sold within the United States to qualified institutional buyers in reliance on Rule 144A. Notes also may be offered and sold outside the United States in reliance on Regulation S. The notes will be issued only in fully registered form, without interest coupons, in integral multiples of U.S.\$1,000.

Global Bonds

The notes will initially be 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 Securities Act will be 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 will be represented by a Global Note (the “Regulation S Global Note”).

Upon issuance, each of the Global Notes will be 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 will be 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 will credit portions of the principal amount of the Global Note to the accounts of DTC participants designated by the initial purchasers; and
- ownership of beneficial interests in each Global Note will be 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 will initially be 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, upon issuance of the notes, 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 will appoint 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 will be subject to restrictions on transfer as described under “Transfer Restrictions.”

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 will be 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 (the “Exchange Act”).

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; 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 will have 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 will be governed by standing instructions and customary industry practice and will be 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 depositary for the Global Notes and a successor depositary is not appointed within 90 days;
- DTC ceases to be registered as a clearing agency under the Exchange Act and a successor depositary 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 will have 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 present 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. If not previously redeemed, the entire principal amount of the notes, together with accrued interest thereon, is payable on April 2, 2038.

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 Fiscal Agent obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Independent Investment Banker” means RBC Capital Markets Corporation 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 and unsubordinated 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 Indebtedness (as defined below) of the Government, unless (i) the notes are secured equally and ratably with such Public 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 Indebtedness incurred or assumed by the Government;
- (ii) Security Interests securing Public 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 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 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 (including any Security Interests that exist on such acquired assets or property on the date of acquisition of such assets or property), 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 Indebtedness secured by such Security Interests may not exceed the Public Indebtedness secured at the time by the then existing Security Interest; and
- (v) Security Interests securing Public Indebtedness (excluding Public 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 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 W-8BEN, W-8ECI, W-8IMY 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 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 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 66⅔% 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 66⅔% 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 owned or 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 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, if and for so long as the notes are listed on the official list of 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 or, alternatively, on the website of the Luxembourg Stock Exchange at <http://www.bourse.lu>.

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 will be governed by, and construed in accordance with, the laws of the State of New York.

The Government will agree 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 will waive, to the fullest extent that it may effectively do so under applicable U.S. 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 or her offices at 231 East 46th Street, New York, New York 10017, acting as agent for service of process for The Bahamas. The Government will irrevocably waive and agree 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 will not consent to service or waive sovereign immunity with respect to actions brought against it under U.S. federal securities laws or any state securities laws. 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 in this paragraph.

The Government will irrevocably waive, 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.

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 one year 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 ONE YEAR 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.

TO ENSURE COMPLIANCE WITH TREASURY DEPARTMENT CIRCULAR 230, NOTEHOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES IN THIS OFFERING MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY NOTEHOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON NOTEHOLDERS UNDER THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED; (B) SUCH DISCUSSION IS BEING USED IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) NOTEHOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

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, depending on the U.S. Holder’s circumstances, generally will be considered “passive” or “general” income, which, in either case, 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

RBC Capital Markets Corporation, FirstCaribbean International Bank (Bahamas) Limited and Citigroup Global Markets Inc. are acting as the initial purchasers. Subject to the terms and conditions stated in the purchase agreement dated the date of this offering memorandum, the initial purchasers have agreed to purchase, and the Government has agreed to sell to the initial purchasers, the aggregate principal amount of the notes.

| <u>Initial Purchaser</u> | <u>Principal Amount</u> |
|---|--------------------------|
| RBC Capital Markets Corporation | U.S.\$ 48,500,000 |
| FirstCaribbean International Bank (Bahamas) Limited | U.S.\$ 48,500,000 |
| Citigroup Global Markets Inc. | U.S.\$ 3,000,000 |
| Total | <u>U.S.\$100,000,000</u> |

The purchase agreement provides that the obligations of the initial purchasers to purchase the notes are subject to approval of legal matters by counsel and to other conditions. The initial purchasers must purchase all the notes if they purchase any of the notes.

The Government has been advised that the initial purchasers propose 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 the commencement of this offering, 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 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;
- with respect to the notes, in relation to each European Economic Area Member State which has implemented the Prospectus Directive (each, a “Relevant Member State”), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”), they have not made and will not make an offer of notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of notes in that Relevant Member State at any time: (a) to legal entities which

are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities; (b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year, (ii) a total balance sheet of more than €43,000,000 and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or (c) in any other circumstances falling within Article 3(2) of the Prospectus Directive. For the purposes of this provision, the expression an “offer of notes to the public” in relation to any notes in any Relevant Member State means a communication in any form and by any means, of sufficient information on the terms of the offer and the notes to be offered, so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State, and the expression “Prospectus Directive” means Directive 2003/71/EC and includes and relevant implementing measure in each Relevant Member State; 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 been or will be taken 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, including 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 official list of the Luxembourg Stock Exchange and except in circumstances which do not constitute a public offer of the securities.

The notes will constitute a new class of securities with no established trading market. Although we have submitted an application to list the notes on the official list of the Luxembourg Stock Exchange, the listing would 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. The notes are expected to be made eligible for trading in the PORTAL Market for purposes of trading through the facilities of the DTC.

FirstCaribbean International Bank (Bahamas) Limited has advised us that it will market and sell its notes in the United States only through one or more of its affiliates, each of which is a U.S. registered broker-dealer.

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 expects to deliver the notes against payment for the notes on or about the date specified in the last paragraph of the cover page of this offering memorandum, which will be the fourth business day following the date of the pricing of the notes. Since trades in the secondary market generally settle within three to five business days, purchasers who wish to trade notes on the date of pricing or otherwise prior to settlement of the notes will be required, by virtue of the fact that the notes initially will settle in T+4, to specify alternative settlement arrangements to prevent a failed settlement.

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. The Common Code for the Restricted 144A Global Notes is 035630562 and the Common Code for the Regulation S Global Notes is 035630538. The International Securities Identification Number, or ISIN, for the Restricted 144A Global Notes is US056732AF75, and the ISIN for the Regulation S Global Notes is USP06518AD91.

The legal authorization for the issuance of the notes offered hereby is set forth in a resolution of the House of Assembly, dated December 17, 2007 which authorizes the Minister of Finance to borrow U.S.\$100,000,000 in the currency of the United States.

Copies of the Fiscal Agency Agreement (including the form of the note) will, for if and so long as the notes are listed on the official list of 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. In addition, copies of the Central Bank's annual and quarterly reports (which contain the latest economic information for The Commonwealth of The Bahamas), as and when available, may be accessed on the Central Bank's website at <http://www.centralbankbahamas.com>.

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 will be passed upon for the Government by Hogan & Hartson LLP, U.S. counsel to the Government, and by the Office of the Attorney General of The Bahamas. Certain legal matters related to the offering will be passed upon for the initial purchasers by Thacher Proffitt & Wood LLP, U.S. counsel to the initial purchasers, and Higgs & Johnson, Bahamian counsel to the initial purchasers.

To the best of its knowledge, except as disclosed in this Offering Memorandum, the Issuer is not involved in any litigation, arbitration, or administrative proceedings relating to the claims or amounts which are material in the context of the issuance of Notes nor, so far as it is aware, having made reasonable inquiries, is any such material litigation or arbitration or administrative proceeding involving it pending or threatened.

Except as disclosed in this Offering Memorandum, there has been no material adverse change in the fiscal, economic or political condition or affairs of the Issuer since December 31, 2006, which is material in the context of the issue of the Notes.

ISSUER

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U.S.\$100,000,000

The Commonwealth of the Bahamas

7.125% Notes due 2038



OFFERING MEMORANDUM
April 22, 2008

RBC Capital Markets

FirstCaribbean International Bank (Bahamas) Limited

Co-Manager

Citi
