THE CENTRAL BANK OF THE BAHAMAS

Annual Report & Statement of Accounts

for the Year Ending

31 DECEMBER 2004

THE CENTRAL BANK OF THE BAHAMAS

Mission Statement:

To foster an environment of monetary stability

conducive to economic development, and

to ensure a stable and sound financial system.

DIRECTORS AND SENIOR OFFICIALS

At December 31, 2004

BOARD OF DIRECTORS

Julian W. Francis, CBE – Chairman
Wendy M. Craigg
Dr Pandora Johnson
Mr Carleton Williams, CBE

Senior Officials

Julian W. Francis – Governor
Wendy M. Craigg – Deputy Governor

Michael D. Foot – Inspector Banks and Trust Companies
Rochelle A. Deleveaux – Legal Counsel
J. Kevin Higgins – Economic Advisor

Cassandra C. Nottage – Manager, Bank Supervision
Cecile M. Sherman – Manager, Banking
Bert A. Sherman – Manager, Computer
Sylvia L. Carey – Manager, Human Resources
Gerard L. Horton – Manager, Exchange Control
John A. Rolle – Manager, Research
Keith T. Jones – Manager, Accounts

Selvin I. Basden – Deputy Manager, Administration
Shari L. Scavella – Internal Auditor

CONTENTS

Notes: Throughout this Report, the sign "$" means the Bahamian dollar unless otherwise noted.

April 27, 2005

Dear Prime Minister:

In accordance with Section 30 (1) of The Central Bank of The Bahamas Act, Chapter 321, I have the honour of forwarding to you, on behalf of the Board of Directors, the Annual Report of the Bank for the year 2004. Included with this report is the Annual Statement of Accounts of The Bank for the year.

Respectfully yours,

Julian W. Francis
Governor

The Rt. Hon. Perry G. Christie
Prime Minister and Minister of Finance
Office of the Prime Minister
Sir Cecil V. Wallace-Whitfield Center
Cable Beach
Nassau, N.P., Bahamas

ECONOMIC AND MONETARY REVIEW

Domestic Economic Developments

Preliminary indications are that the Bahamian economy grew at a faster pace in 2004, despite weakness in the second half of the year caused by the damage and disruption from the September hurricanes, Frances and Jeanne. Favourable demand stimulus from the North American economies underpinned resumed expansion in tourism earnings, while accelerated foreign investment flows augmented the domestic resources which financed construction projects. Despite elevated pressures from oil prices, more moderate influences from other costs contributed to abated consumer price inflation. Although more consolidating trends emerged in public sector finances, these were overshadowed by an enlarged deficit in the first half of FY2004/05, concentrated in the months surrounding the hurricanes. Financial sector developments were characterized by strengthened growth in the monetary aggregates, outpacing otherwise intensified credit expansion, and contributing to robust growth in bank liquidity and external reserves. Concurrently, average interest rates softened and the spread on banks' loans and deposits rates narrowed. In the external sector, increased net tourism receipts, were reinforced by reinsurance flows from hurricane claim settlements, to occasion a significant narrowing in the current account deficit. Meanwhile, expanded net private foreign investment inflows bolstered the surplus on the capital and financial account.

Robust foreign currency inflows supported a more than doubling in banks' net free cash balances, to $271.6 million, equivalent to an estimated 6.5% of Bahamian dollar deposits at end-2004 compared to 3.4% in 2003. Surplus liquid assets also improved, by 48.5% to $232.8 million, exceeding the statutory minimum by 34.4% compared to 25.5% in 2003. Liquidity conditions influenced a softening in banks' weighted average deposit rate, by 15 basis points to 3.78%, while more competitive lending conditions resulted in a 79 basis point reduction in the weighted average loan rate to 11.25%. The average 90-day Treasury bill rate also declined by 122 basis points to 0.56%, but base rates—commercial banks' Prime and the Central Bank's Discount Rate—were unchanged at 6.00% and 5.75%, respectively.

TABLE 1: Selected Indicators of Economic Activity *(% Change)*

	2001	2002	2003	2004
Occupied Hotel Room Nights	(3.7)	0.8	(1.4)	1.3
Total Arrivals	(0.5)	5.3	4.3	8.9
Construction Starts - Value	(8.0)	55.0	(7.0)	n/a
Construction Completions - Value	8.0	(5.9)	(12.7)	n/a
Electricity Generation (mwh)	3.9	5.6	5.4	1.3*
Water Consumption (gals.)	(1.4)	6.3	n/a	n/a
Retail Price Index	2.00	2.19	3.00	0.90

SOURCE: The Central Bank of The Bahamas

* Ytd June

Supported by similarly elevated tourism and foreign investment inflows, money supply growth

(M3) intensified to 10.4% from 4.4% in 2003, placing the stock at $4,421.5 million. Driven by private individuals' placements, Bahamian dollar fixed deposits, the largest component, registered extended gains of 4.1% compared to 0.9% in 2003. New business placements and some transfers from public corporations' fixed balances more than doubled demand deposit growth to 28.2%. Equally significant was the firming in savings deposits, by 14.9% vis-a-vis 7.6%, and in currency in active circulation, by 10.3% relative to 3.4% in 2003.

Domestic credit expansion strengthened to 5.0% from 1.0% in 2003, for outstanding claims of $5,445.2 million. The main influence was the increased rate of net private sector borrowing at 6.0% vis-à-vis 0.6% in 2003—driven by accelerated lending to the personal sector (10.2%), firmer mortgages growth (14.6%) and an upturn in consumer credit (6.2%). Growth in claims on the public sector steadied at 1.0%, with the resumption in net domestic borrowing by Government (8.0%) countering a downturn in credit to public corporations (8.6%).

Reduced revenues, as a result of the hurricanes, and some unrelated firming in expenditures widened the Government's deficit during the first half of FY2004/05 (July - December) to $83.8 million from $53.1 million in the same period of the previous year. Revenue losses, particularly during September, constrained growth in total receipts at 3.6% to $465.0 million, while elevated capital spending and current outlays underpinned a 9.4% hike in expenditures to $548.9 million. Despite the immediate adverse impact from the hurricane in the July – September results, the comparative deficit stabilized during October – December, owing to recovered economic trends, which are expected to continue over the remainder of the fiscal year. Budgetary financing requirments during the first half of the fiscal year were largely met through a net borrowing in Bahamian dollars of $159.9 million. The corresponding increase in the Direct Charge of 8.2%, culminated in an 8.3% advance to $2,101.0 million for 2004. However, the Government's contingent liabilities decreased by 8.5% to $421.6 million, moderating the calendar year growth in the National Debt to 5.1%, for an outstanding stock of $2,522.6 million.

Although both third and fourth quarter results for tourism were hampered by the hurricanes, indications are that output was comparatively strengthened during 2004, following a nearly unchanged level of expenditure in 2003. Prospects remained favourable, as the New Providence hotel infrastructure escaped significant hurricane damage, while some properties in Grand Bahama and Abaco were sufficiently restored to benefit from the final two months' seasonal upturn in demand. Total visitor arrivals rose further by 8.9%, to a record 5.0 million in 2004, following a 4.3% gain in 2003 and a 5.2% uptrend in 2002. Air arrivals growth, inclusive of the key stopover segment, stabilized at 1.5% compared to 1.9% in 2003, while sea traffic, which underlined more accelerated cruise expansion, rose by 12.3% relative to 5.4% last year. Stopover activity was underpinned by improved hotel sector indicators. The Ministry of Tourism's survey of large hotel properties indicates a 1.3% rise in occupied room nights throughout The Bahamas and a 1.8% appreciation in average nightly room rates to $151.04, for a 3.1% revival in estimated room revenues. On a destination basis, growth was strongest in New Providence, underlined by increased hotel room sales and firmer average pricing, alongside robust cruise activity. Although Grand Bahama experienced cruise expenditure growth, the significant unavailability of hotel rooms severely curtailed stopover activity. Conversely, stopover results were more robust for the Family Islands, outweighing some softening in cruise business.

Consumer price inflation, measured by changes in the average Retail Price Index, abated to 0.9% in 2004 from 3.0% in 2003. Declines in average costs for the most heavily weighed housing component, recreation & entertainment services and "other" goods and services, followed more accelerated gains in 2003. The average price increase moderated for furniture & household items and medical care & health, contrasting with firming for education and food & beverages, and an upturn in clothing & footwear costs.

In the construction sector, more intensified domestic residential mortgage lending, combined with strengthened foreign investment inflows and the onset of hurricane rebuilding efforts signaled a healthy pickup in expenditures during 2004. Although inclusive of equity loans for non-construction purposes, residential mortgage disbursements rose by 4.3% to $299.3 million, while disbursements for commercial mortgages nearly doubled to $25.4 million. The value of commitments for new housing and construction repairs rose almost twofold to $122.5 million, eclipsing a reduced estimate on commercial approvals of $6.1 million vis-à-vis $20.4 million in 2004. Financing terms were stable to improved, as the average residential mortgage rate moderated to 8.8% from 9.0%, and the average commercial rate remained at 9.6%.

On the external side, the current account deficit narrowed to an estimated $334.5 million from $416.5 million in 2003. A key factor was the 22.1% expansion in net invisible receipts to $1,101.0 million, due principally to an estimated net insurance inflow of $127.8 million, related to hurricane claims settlement, as opposed to the traditional net premium outflow. In addition, net travel receipts recovered by 4.2%, in response to healthier tourism inflows. However, the merchandise trade deficit rose by 12.0% to $1,348.4 million, as higher prices and increased local consumption hiked the oil bill by an estimated 28.6%. The improvement in the current balance also benefitted from the 11.9% contraction in net factor income remittances to $143.9 million and a 16.6% widening in net transfer receipts to $56.8 million.

The capital and financial account surplus widened to an estimated $311.9 million from $231.9 million in 2003, led by an expansion in private foreign investment inflows, particularly in the tourism sector. Net direct private equity inflows expanded significantly to $181.2 million from $80.8 million in 2003, and private loan financing advanced to $165.4 million from $148.3 million in 2003. Also noteworthy, firming in second homes demand extended net real estate inflows to $91.4 million from $84.3 million in 2003. In the public sector, the net external debt repayment of $14.0 million contrasted with a net borrowing of $59.2 million in 2003, while the banking sector's external short-term liabilities were further reduced by $64.2 million, compared to $102.4 million in 2003.

FISCAL OPERATIONS

Reduced revenue inflows, related to the hurricanes and unrelated expenditure growth resulted in a deterioration of the fiscal position over the first half of Fiscal Year 2004/05. While this contrasted with a modest reduction in the deficit for Fiscal Year 2003/04, some recovery was already evident in the comparatively strengthened revenue collections during October- December, and is expected to continue over the second half of the fiscal year.

2003/2004 Performance

Responding to some improvement in the economic climate, preliminary estimates are that the deficit on the Government's operating balance narrowed to $166.3 million during FY2003/04 from $187.8 million in FY2002/03 (see Table 2). This, however, exceeded the originally targeted deficit of $123.0 million, which anticipated more robust economic conditions and did not provision for the increase in public sector salaries. While total expenditures, at $1,110.1 million, were virtually contained at the budgeted level, revenue collections were 4.8% ($47.7 million) below projections at $943.8 million, based on a shortfall in tax receipts. Compared to the previous fiscal year, expenditures were higher by 1.9%, and revenues, by 4.7%.

Under revenues, tax collections increased by 2.0% to $831.2 million, but lagged the budget

TABLE 2: Government's Budget *(B$'000)*

	FY2001/02	FY2002/03	FY2003/04		FY2004/05	
	Actual	Actual	Approved Estimates	Preliminary Estimates	Approved Estimates	Preliminary[1] Estimates
Government Revenue	856,838	901,791	991,503	943,760	1,051,623	465,045
Government Expenditure (i+ii+iii)	1,027,771	1,089,581	1,114,493	1,110,075	1,215,049	548,891
i) Recurrent Expenditure	896,704	962,725	968,938	993,924	1,067,259	504,641
ii) Capital Expenditure	103,572	83,797	119,705	80,890	117,296	26,785
iii) Net Lending	27,495	43,059	25,850	35,261	30,494	17,465
Surplus/(Deficit)	(170,933)	(187,790)	(122,990)	(166,315)	(163,426)	(83,846)

SOURCE: Ministry of Finance
Compiled according to the IMF's Government Finance Statistics Format. [1]July - December, 2004

forecast by 6.5%. Gains included a 2.7% hike in property taxes and a 7.2% rise in selected taxes on tourism services which, however, fell short of budgeted projections by 21.7%. Revenue from business and professional license fees exceeded both the previous fiscal year's outcome and the budgeted forecast, by 4.8% and 2.7% respectively, and departure taxes were higher relative to both estimates, by 16.6% and 9.1%, respectively. Conversely, motor vehicle taxes were below both the previous fiscal year's intake and budgetary expectations, by 10.5% and 29.7% respectively, and levies on international trade and transactions (mainly import duties) contracted by 1.9%—ending up 10.0% under the budget target. Meanwhile, with the pickup in financial sector activities, the related stamp taxes rose by 16.0% and exceeded the budget forecast by 33.0%.

Non-tax revenue, at $97.5 million, surpassed the Government's forecast by 16.4%, and the previous year's receipts by 12.3%. Income from public enterprise and other sources (including land lease payments, rents and dividends) rose by 16.1% to $28.3 million, while the largest component, fines, forefeitures and administrative fees, increased by 11.6% to $68.5 million.

On the expenditure side, recurrent outlays of $993.9 million represented 89.5% of the total and were 2.6% above the approved allocations and 3.2% higher than FY2002/03—partly impacted by the $24.0 million retroactive salary increase awarded to civil servants in December 2003. With the postponement of infrastructural works, capital expenditures decreased by 3.5% and were 32.4% below budget at $80.9 million. Conversely, net lending to public corporations at $35.3 million exceeded the budget amount by 36.4%, but was some 18.1% less than the FY2002/03 outlay.

Budgetary financing during the fiscal year included Bahamian dollar and foreign currency borrowings of $132.3 million and $206.7 million, respectively, with the latter encompassing the July 2003 floatation of a US$200.0 million 30-year bond, which refinanced $125.0 million in domestic foreign currency liabilities owed to banks. Consequently, this refinancing was included in debt amortization, which amounted to $112.0 million in Bahamian dollars and $139.4 million in foreign currency.

2004/2005 Budget

Approved by Parliament in June, the Budget for FY2004/05 reiterated the Government's commitment to achieving a medium term reduction in the deficit, through a containment of expenditure growth, while realizing steady revenue growth from an increase in economic activity and enhanced administrative measures and controls. For expenditure, emphasis remained on advancing social sector priorities, including education, training, health, housing and youth development. Targeted maintenance, modernization and expansion of public infrastructure also captured a significant portion of the allocation. Accordingly, the Government targeted a deficit to GDP ratio of 2.9% for FY2004/05, which would represent a marginally decreased outcome from the previous year's preliminary result.

Based on an anticipated pick up in foreign investment activity and expected firming in tourism growth during FY2004/05, revenue and grants are projected to recover by $107.9 million (11.4%) to $1,051.6 million, relative to the actual FY2003/04 outcome, which would represent a 6.1% improvement from the original forecast. Approved expenditure—including net lending to public corporations—was placed higher by $105.0 million (9.5%) at $1,215.0 million. Consequently, the overall deficit was projected to reach $163.4 million which, although higher than the previous year's forecast, would represent a marginal decrease from the preliminary outcome for FY2003/04.

In the context of anticipated reforms in revenue administration, tax collections are expected to increase by 13.4% over the previous year's receipts, to $942.7 million, primarily generated from gains in taxes on international trade and transactions (11.6%), real property (64.9%), selective tourism services (24.2%), motor vehicles (51.1%) and business and professional license fees (23.3%). Projected at $97.6 million, non-tax receipts are expected to increase by 0.1% relative to the previous year's outcome, owing to elevated income from other sources and sale of Government property. Capital revenue arising mainly from hotel property sales, and grants are budgeted to yield aggregate receipts of $11.3 million—a reduction from the FY2003/04 $15.0 million, which were mainly derived from the sale of equity interests in the Bank of The Bahamas Ltd and Cable Bahamas Ltd.

When compared to the preliminary outcome for FY2003/04, the recurrent and capital expenditure budgets rose, on a combined basis, by $109.7 million (10.2%), while provisions for net lending decreased by 13.5% to $30.5 million.

Budgeted current expenditure of $1,067.3 million exceeded the 2003/04 provisional outcome by $73.3 million (7.4%), and included a 6.3% rise in salary provisions, which represented 44.0% of the total. In addition, allocations for transfer payments increased by 4.4%, including a 9.1% hike in interest charges to $123.3 million and in subsidies and non-interest transfers, by 2.1% to $247.9 million. Planned purchases of goods and services, at 21.2% of the recurrent total, rose by 15.2% to $226.6 million.

Approved capital expenditure increased by $36.4 million (45.0%) to $117.3 million, relative to the FY2003/04 provisional outlays. Some $79.2 million was earmarked for capital formation—primarily public works and infrastructure projects—compared with $49.1 million in the previous year. Provisions for the acquisition of assets also increased, relative to realized investments in FY2003/04, by 23.7% to $32.9 million and planned capital transfers to non-financial public enterprises were elevated by 6.1% to $5.1 million. In addition to approved infrastructural developments, mostly captured under economic services, important capital allocations were earmarked for general public services ($17.9 million), education ($17.5 million) and health ($11.9 million).

Projected budgetary financing for the Fiscal Year 2004/05 included authorization for domestic borrowings of $231.3 million, and $29.0 million in external credit, with scheduled debt amortization placed at $94.4 million. Against these provisions, the Direct Charge on Government is likely to increase by $165.9 million to approximately $2,107.0 million by end-FY2004/05, and the National Debt, close to some $2.54 billion.

First 6 Months of FY2004/05

Provisional estimates of budgetary operations for the first six months of the fiscal year indicated a widening in the overall deficit to $83.8 million from $53.1 million in the year-earlier period, reflecting revenue deterioration in the July-September months, stemming from the hurricanes. Revenues increased by an estimated 3.6% to $465.0 million, representing approximately 44.2% of budgeted expectations, while total expenditures, including net lending, rose by 9.4% to $548.9 million, and were 45.2% of the approved outlays.

Compared to the same period in the previous fiscal year, tax receipts strengthened by 5.3% ($22.5 million) to $443.9 million. Also, property taxes recovered by $11.8 million (55.1%) to $33.1 million, while business and professional licence fees rose by $0.6 million (4.2%) to $16.0 million; motor vehicle taxes, by $0.6 million (10.3%) to $6.2 million and stamp taxes on financial and other transactions, by $12.7 million (31.0%) to $53.9 million. Most directly impacted by the hurricanes, taxes on international trade and transactions narrowed by $35.4 million (14.6%) to $206.3 million; departure taxes, by $2.4 million (9.1%) to $24.2 million and gaming and hotel occupancy taxes by $0.5 million (5.1%) to $9.5 million. Partly offsetting these losses, "other" non-disaggregated taxes rose by $37.2 million (59.8%) to $99.5 million.

Non-tax revenue fell by $6.3 million (23.2%) to $21.0 million. In particular, receipts from fines, forfeitures and administrative fees decreased by $5.7 million (23.2%) to $18.8 million, and income from public enterprises and other sources fell by $0.5 million (19.1%) to $2.0 million.

On the expenditure side, recurrent outlays rose by $22.7 million (4.9%) to $485.2 million (88.4% of the total), while capital spending advanced by $22.2 million (92.2%) to $46.2 million and net lending to public enterprises, by $2.2 million (14.8%) to $17.5 million.

The recurrent total included a hike in Government consumption expenses, by 3.7% to $309.1 million, on account of increases in both purchases of goods and services and personal emoluments. Transfer payments rose by 7.1%, and was mainly due to a 1.8% rise in interest expense on Government debt to $56.1 million and a 9.8% hike in transfers and other subsidies to $120.0 million.

Underlying the rise in capital investments was a $26.7 million outlay for acquisition of assets compared to $3.6 million the previous year, mainly associated with land purchased for eventual transfer to the Clifton Cay Heritage Foundation. Capital formation, inclusive of spending on infrastructure works, was reduced by 1.9% to $19.0 million.

During the first six months of FY2004/05, budgetary financing comprised net domestic currency borrowing of $162.4 million, and a net external debt repayment of $2.5 million. These increased the Direct Charge on Government by 8.2% for the half year, and culminated in a $161.3 million (8.3%) advance to $2,101.0 million for the calendar year. At end-2004, Bahamian dollar claims, accounting for 86.3% of the debt, rose by 10.1% since 2003. By creditor composition, the majority of Bahamian dollar debt was held by public corporations (39.5%), followed by private and institutional investors (28.4%), domestic banks (23.8%) and the Central Bank (8.2%).

During 2004, Government's contingent liabilities decreased by 8.5% to $421.6 million. This limited the growth in the National Debt to 5.1%, for a year-end stock of $2,522.6 million, compared to an 8.8% advance in 2003, when contingent liabilities increased by 15.3%.

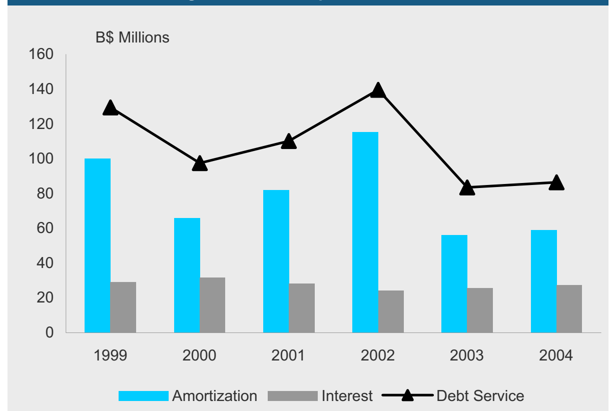
Foreign Currency Debt

The public sector's foreign currency debt declined by $44.3 million (7.4%) to an estimated $558.8 million at end-2004 (see Table 3), as principal repayments of $59.0 million exceeded new borrowing of $14.6 million. At 51.5% of the total, the Government's component decreased by $4.4 million (1.5%) to $287.7 million, and the public corporations' liabilities were lower by $39.9 million (12.8%) to $271.1 million.

By creditor profile, almost equal shares of the debt was held by investors in private capital markets (40.3%) and domestic banks (40.2%), and the balance, by multilateral institutions (19.5%). The average maturity of the debt was in excess of 14 years, with over 95% of the liabilities denominated in US dollars.

Comparisons, adjusted for the respective US$120.0 million and $125.0 million in refinancing flows by the public corporations and Government in 2003, indicate that debt service payments were

Foreign Currency Debt Service



slightly higher at $86.4 million from $85.1 million, as the interest component increased by 6.5% to $27.4 million. However, with external sector earnings strengthened, the adjusted debt service as a proportion of estimated exports of goods and non-factor services softened to 3.1% from 3.5% in 2003. The adjusted ratio of Government's foreign currency debt service to total revenue also narrowed to 2.8% from 3.0% in 2003.

REAL SECTOR

Tourism

Amid significant support from the United States' economic expansion, tourism output growth strengthened in 2004 from an almost flat position in 2003. The key stopover segment featured broadbase pricing gains and increased room night sales, particularly in New Providence and the Family Islands. Although adversely impacting the

Table 3: Public Sector Foreign Currency Debt *(B$ Millions)*

	2001p	2002p	2003p	2004p
A. EXTERNAL DEBT	312.1	275.8	348.9	334.7
i) Government	117.6	96.1	292.1	287.7
ii) Public Corporations	194.5	179.7	56.8	47.0
Of Which Gov't Guaranteed	192.1	178.8	55.8	45.8
B. INTERNAL FOREIGN CURRENCY DEBT	84.2	236.2	254.2	224.1
i) Government	36.4	130.0	-	-
ii) Public Corporations	47.8	106.2	254.2	224.1
Of Which Gov't Guaranteed	-	36.2	165.7	149.2
C. TOTAL FOREIGN CURRENCY DEBT	396.3	512.0	603.1	558.8
D. DEBT SERVICE RATIO	4.8	5.8	3.5	3.1

SOURCE: Treasury Accounts, Treasury Statistical Summary Printouts and Public Corporations' Quarterly Report

TABLE 4: Visitor Arrivals

Period	Air Arrivals	% Change	Sea Arrivals	% Change	Total	% Change	Occupied Room Nights	% Change
2001	1,428,124	-3.6	2,754,547	1.2	4,182,671	-0.5	2,117,729	-3.7
2002	1,402,894	-1.8	3,003,077	9.0	4,405,971	5.3	2,134,962	0.8
2003	1,428,973	1.9	3,165,069	5.4	4,594,042	4.3	2,105,713	-1.4
2004	1,450,037	1.5	3,553,654	12.3	5,003,691	8.9	2,132,153	1.3

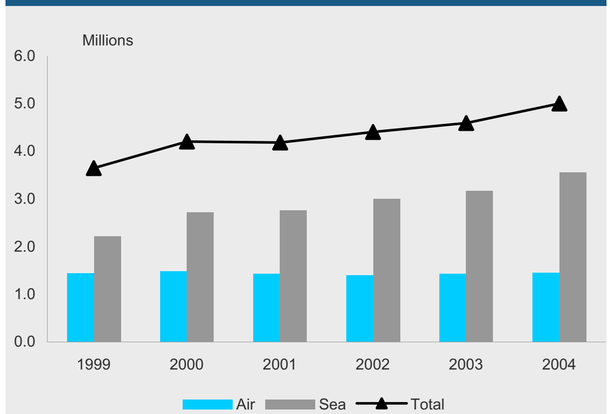
SOURCE: The Bahamas Ministry of Tourism

industry, the September hurricanes occurred after the peak season, and as New Providence escaped significant damage, this left most of the industry's infrastructure available to accommodate the increased seasonal demand associated with the year-end holidays.

During 2004, total visitor arrivals grew by 8.9% to 5.0 million, extending the previous year's 4.3% increase (see Table 4). Indicative of sustained growth in cruise visitors, the gain in sea traffic intensified to 12.3%, for 3.6 million passengers, relative to a 5.4% rise in 2003. In the stopover sector, after the disruption caused by the hurricanes, air arrivals growth stabilized at 1.5% for 1.5 million tourists, relative to the 1.9% gain in 2003.

Among the major island destinations, activity was significantly improved for New Providence, as growth in arrivals accelerated to 12.2% from a 2.0% upturn in 2003. Air visitors strengthened further by 2.9%, while sea visitors surged by 17.4% vis-à-vis 2.5% in 2003—albeit, partly reflecting first port of call data which indicated some diversion of traffic from the Family Islands. For Grand Bahama, robust cruise activity underpinned a strongly accelerated 38.5% boost in sea arrivals, cushioning the 10.5% decline in air traffic and sustaining a 15.7% recovery in total arrivals. Although Family Island arrivals decreased by 0.9% from an 11.9% hike in 2003, the 12.7% improvement in air arrivals, associated with stopover activity, still signaled more robust expenditure levels, in contrast to a 3.2% reduction in sea traffic.

Tourism Arrivals



Consistent with healthier stopover trends and strengthening cruise visitor volumes, preliminary indications suggest resumed tourism expenditures growth for The Bahamas, following a relatively flat outcome, estimated at $1.76 billion in 2003. Revenue trends in the hotel sector evidenced increased stopover inflows, from both appreciated

TABLE 5: Growth in Tourist Arrivals *(%)*

PORTS OF ENTRY	2001	2002	2003	2004	2004 Market Share
Nassau/Paradise Island	1.0	(4.7)	2.0	12.2	59.1
Grand Bahama	(6.3)	0.3	(0.8)	15.7	14.6
Rest of Family Islands	(0.5)	41.2	11.9	(0.9)	26.3
TOTAL	(0.5)	5.2	4.3	8.9	100.0

SOURCE: The Bahamas Ministry of Tourism

pricing and increased room night sales. Estimated revenue, based on the Ministry of Tourism's Survey of large properties, recovered by 3.1% from a 6.1% decline during the same period last year. Occupied room nights in The Bahamas rose by 1.3%, and average nightly room rates by 1.8% to $151.04. Although the average hotel occupancy rate improved to 65.0% from 59.0% in 2003, this was also influenced by a 7.9% reduction in rooms available for sale.

On a destination basis, New Providence's room revenue recovered by 2.8% from a 7.1% decline in 2003. The average daily room rate rebounded marginally by 0.2% to $166.95, while total room night sales increased by 2.5%. Grand Bahama experienced a 7.1% advance in the average nightly room rate to $90.04, offsetting a 2.8% decline in occupied room nights, and resulting in a 4.1% rise in estimated room revenues. As a result of the hurricanes and the delayed re-opening of some facilities, the available room inventory on the island, however, decreased by 23.9%. Family Islands' room revenues rose by 5.7%, as the average nightly room rate firmed by 6.2% to $171.14 and countered a marginal decrease in occupied room nights.

The outlook for the industry is for strengthened performance in 2005 and the medium-term, centered mainly on continued expansion in the US and global economy. Other beneficial factors include the persistent weakness in the US currency, that is holding down the comparative cost of The Bahamas' product, in concert with increased foreign investments in hotel room capacity and upgrade activities, supported by a steady increase in airlift capacity to The Bahamas.

TABLE 6: Construction, All Bahamas *(B$'000)*

	2000	2001	2002	2003	YTD -March 2003	YTD -March 2004
Building Permits						
Number	3,208	3,053	3,016	3,006	761	771
Value	536,586	752,030	529,448	447,644	118,698	107,612
Building Starts						
Number	1,064	1,010	1,324	1,485	342	400
Value	193,443	177,907	275,753	256,592	57,684	55,520
of which:						
i) Residential						
Number	976	933	1,180	1,380	310	375
Value	162,679	144,713	170,732	210,970	50,577	50,324
ii) Commercial						
Number	87	71	140	101	30	25
Value	30,549	30,358	100,406	44,418	6,744	5,196
iii) Public						
Number	1	6	4	4	2	-
Value	215	2,836	4,614	804	363	-
Building Completions						
Number	1,519	1,706	1,602	1,632	423	418
Value	299,982	323,957	304,752	265,999	75,879	70,206

SOURCE: Department of Statistics, Quarterly Bulletin of Construction Statistics

Construction

Steady residential mortgage lending, alongside a firming in foreign investment inflows and rebuilding activities following the hurricanes, stimulated increased construction output during 2004. Continued firming in these trends is expected during 2005, supporting increased income and employment in the sector. Industry wide data on construction was only available through the first quarter of 2004 (see Table 6).

As regards domestic mortgage support, although partly indicative of non-construction financing, total loan disbursements by local lenders during 2004 rose steadily by 7.7%. Residential disbursements increased by 4.3% to $299.3 million, while commercial drawdowns almost doubled to $25.4 million.

Total annual mortgage commitments for new construction and repairs to existing structures increased to 1,247 from 919 in 2003, with a corresponding hike in value to $134.3 million from $91.4 million. Residential mortgages accounted for 95.4% of the approvals, corresponding to an 80.4% increase in loan value to $128.2 million. The aggregate value of commercial loan approvals receded significantly, to $6.1 million from $20.4 million in 2003.

Growth in total outstanding mortgages strengthened moderately to $182.8 million (10.9%), for outstanding claims of $1,858.4 million. Residential claims, which comprised 91.3% of the total, rose by 12.1% during 2004, and commercial claims were approximately stable at $162.6 million. Of the total mortgage market, the majority of lending originated from local banks (85.6%), followed by insurance companies (9.7%) and the Bahamas Mortgage Corporation (4.7%).

As regards applicable interest rates, the average residential loan rate eased by 20 basis points to 8.8%, while the average commercial lending rate remained at 9.6% for the third consecutive year.

Fisheries

The busy hurricane season contribued to a decline in both fisheries production and exports during 2004. Statistics from the Department of Fisheries, for the first half of 2004, the most recent period for which data on landings are available, indicated that the estimated volume and worth of the domestic catch fell by 5.5% and 10.2% respectively, to 4.9 million pounds valued at $27.0 million. Crawfish tails, which accounted for 35.53% of the landed weight and 72.1% of the value, were reduced by 10.0% to 1.7 million pounds with a drop in estimated value of 12.7% to $19.5 million. The snapper catch, which represented the second largest share of landings, decreased by 2.9% to 1.1 million pounds and the associated value, by 5.8% to $1.89 million. In contrast, harvested conch meat rose by 10.7% to 1.0 million pounds, with the value gaining 8.2% to $2.8 million.

In the 12 months through December 2004, estimated earnings from fisheries exports decreased by 16.9% to $90.4 million, corresponding to a 21.7% decline in volume to 6.2 million pounds. Crawfish shipments constituted 94.1% of the total volume and 97.5% of the estimated inflows, with the $88.2 million in estimated receipts from sales of 5.9 million pounds, compared to 7.5 million pounds at $106.3 million in 2003. However, the average price per pound increased by 5.3% to $15.00. Meanwhile, export proceeds from other marine products declined by 10.2% to $2.2 million—despite a more than doubling in earnings from conch meat to $0.9 million.

Prices

Inflation, as measured by changes in the average Retail Price Index, decelerated to 0.90% from 3.00% in 2003 (see Table 7). Declines in average costs for the most heavily weighed housing component (0.1%), recreation & entertainment services (3.4%) and "other" goods and services (0.5%), followed more accelerated gains in 2003. The average price increase moderated for furniture & household items (0.4%) and medical care & health (6.8%), in contrast with a firming for education (1.6%) and food & beverages (3.0%), and an upturn in clothing & footwear (0.3%) costs.

MONEY, CREDIT, AND INTEREST RATES

Developments during 2004 featured more sustained but accelerated trends in the monetary and credit aggregates, as strengthened private sector foreign currency inflows supported deposit growth, and private sector lending although increased, was constrained during the first half of the year by the credit limits imposed since September 2001. These conditions occasioned a record buildup in bank liquidity and the system's net foreign assets. Similarly, interest rates

TABLE 7: Average Annual Percentage Changes in Retail Price Index, New Providence

(Oct./Nov. 1995 = 100)

Group	Weight	2001	2002	2003	2004
Food & Beverage	138.3	2.14	1.97	0.53	2.95
Clothing & Footwear	58.9	0.53	0.49	(0.06)	0.32
Housing	328.2	0.16	0.07	0.74	(0.13)
Furniture & Household Operation	88.7	2.60	4.91	3.85	0.39
Medical Care & Health	44.1	1.70	1.20	9.80	6.75
Transportation & Communication	148.4	1.63	0.13	1.82	1.99
Recreation, Entertainment & Services	48.7	3.52	2.48	9.81	(3.44)
Education	53.1	7.70	12.89	1.08	1.64
Other Goods & Services	91.6	5.52	2.06	12.04	(0.51)
ALL ITEMS	1,000.0	2.00	2.19	3.00	0.90

SOURCE: Department of Statistics

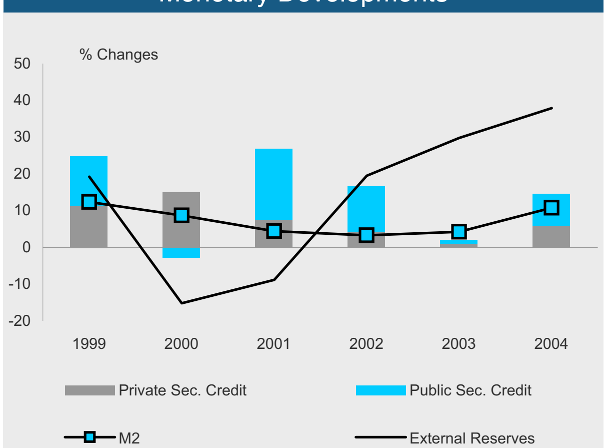
softened, with a further narrowing of the average loan-deposit interest rate spread. Meanwhile, the improving economic climate, faster balance sheet growth and some operating efficiency gains underpinned an upturn in domestic banks' earnings indicators.

Amid the accompanying improvement in asset quality of domestic banks, and a more supportive outlook assessment for the external sector of the economy, on August 9 the Central Bank removed the ceiling on banks' Bahamian dollar lending that was imposed in September 2001. At the same time, financial institutions were instructed to observe strict prudential limits when extending credit to the household sector. Following the hurricanes, the prudential limits were partially relaxed, to permit easier access to lending facilities needed for relief purposes. The Central Bank's monetary policy focus and surveillance activities in 2004 are discussed in Box I.

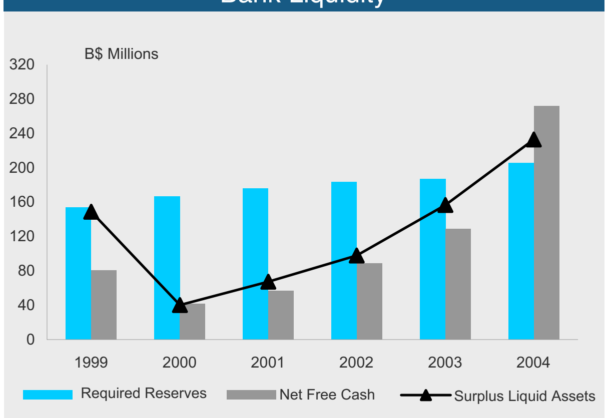
Liquidity

Average monthly liquidity, as measured by banks' free cash balances, rose by 47.1% to $194.0 million during 2004. The year-end position was more than doubled to $271.6 million, representing 6.5% of Bahamian dollar deposit liabilities, compared to 3.4% the previous year. Similarly, average monthly surplus liquid assets improved by 57.5% to $230.5 million, corresponding to an expanded 35.3% of the statutory minimum from 24.4% in 2003. Free cash balances and surplus liquid assets reached

Monetary Developments



Bank Liquidity



respective peak levels in December and July, at $271.6 million and $281.1 million.

Foreign Exchange

Amid reduced public sector external financing activities, the volume of the Central Bank's foreign exchange transactions decreased during 2004 (see Table 8); albeit, net inflows strengthened on account of private sector activity. The Bank's total foreign currency sales declined by 18.4% to $642.1 million, and purchases by 9.7% to $798.6 million. Transactions with commercial banks represented 81.8% of purchases, which increased by 17.3%, and 53.1% of sales, which were lower by 7.8%. As a result, the net foreign currency purchase widened to $156.5 million from $97.1 million in 2003.

On a seasonal basis, total purchases during the first half of the year grew to $438.0 million from $375.7 million in 2003, whereas sales decreased to $275.8 million from $283.9 million. The net purchase during this period was more than three-fourths higher at $162.2 million. In the second half of 2004, both purchases and sales receded to $360.6 million and $366.3 million, from the respective $508.5 million and $503.2 million in 2003. The previous year's transactions coincided with the external re-financing of the Government's $125.0 million foreign currency loan from domestic banks via, proceeds from the external bond issue.

Box I: Monetary Policy During 2004

The Monetary Policy Committee (MPC) was established by the incumbent Governor, in 1980 to promote efficiency and transparency in the formulation and conduct of monetary policy, and to ensure a well-organized decision-making process. The MPC also formulates recommendations for the Government on fiscal and Exchange Control matters, and reviews supervisory issues as they impact the domestic financial system. The MPC is chaired by the Governor and its membership includes the Deputy Governor, Economic Adviser and several department heads. While the Governor is ultimately responsible for the policies promulgated by the Bank, the Committee formally assists this process, and credibility is ensured by the consensus nature of decisions, acted upon by the Governor.

The MPC continually reviewed domestic credit trends and loan quality conditions during 2004 to determine the appropriate timing of adjustments, if required, to the Bank's domestic credit policies. Other important initiatives advanced or monitored included the payments system modernization initiative, and review of Exchange Control matters.

TABLE 8: Central Bank Foreign Exchange Transactions *(B$'000)*

	Commercial Bank			Government			Other			Total		
Period	Purchases	Sales	Net Purchase/ (Sale)	Purchases	Sales	Net Purchase/ (Sale)	Purchases	Sales	Net Purchase/ Sale	Purchases	Sales	Net Purchase/ (Sale)
Qtr.I	128,806	51,620	77,186	23,078	21,702	1,376	4,654	47,445	(42,791)	156,538	120,767	35,771
Qtr.II	89,598	59,517	30,081	25,484	41,936	(16,452)	2,083	33,304	(31,221)	117,165	134,757	(17,592)
Qtr.III	72,425	87,070	(14,645)	17,308	38,441	(21,133)	5,873	35,065	(29,192)	95,606	160,576	(64,970)
Qtr.IV	105,369	77,650	27,719	35,115	35,489	(374)	2,998	27,172	(24,174)	143,482	140,311	3,171
2001	**396,198**	**275,857**	**120,341**	**100,985**	**137,568**	**(36,583)**	**15,608**	**142,986**	**(127,378)**	**512,791**	**556,411**	**(43,620)**
Qtr.I	115,075	37,711	77,364	47,145	36,108	11,037	1,203	31,580	(30,377)	163,423	105,399	58,024
Qtr.II	95,189	48,506	46,683	120,569	69,896	50,673	1,838	25,241	(23,403)	217,596	143,643	73,953
Qtr.III	39,934	82,477	(42,543)	47,152	26,123	21,029	2,495	37,342	(34,847)	89,581	145,942	(56,361)
Qtr.IV	67,291	85,771	(18,480)	29,900	31,245	(1,345)	19,517	38,019	(18,502)	116,708	155,035	(38,327)
2002	**317,489**	**254,465**	**63,024**	**244,766**	**163,372**	**81,394**	**25,053**	**132,182**	**(107,129)**	**587,308**	**550,019**	**37,289**
Qtr.I	171,218	60,622	110,596	31,476	36,831	(5,355)	2,105	39,162	(37,057)	204,799	136,615	68,184
Qtr.II	142,937	84,058	58,879	25,507	31,379	(5,872)	2,499	31,803	(29,304)	170,943	147,240	23,703
Qtr.III	122,949	109,159	13,790	218,432	146,194	72,238	5,770	44,581	(38,811)	347,151	299,934	47,217
Qtr.IV	120,126	116,119	4,007	35,801	32,402	3,399	5,405	54,779	(49,374)	161,332	203,300	(41,968)
2003	**557,230**	**369,958**	**187,272**	**311,216**	**246,806**	**64,410**	**15,779**	**170,325**	**(154,546)**	**884,225**	**787,089**	**97,136**
Qtr.I	203,355	68,630	134,725	36,555	30,679	5,876	2,424	35,415	(32,991)	242,334	134,724	107,610
Qtr.II	158,797	79,330	79,467	34,009	31,160	2,849	2,831	30,593	(27,762)	195,637	141,083	54,554
Qtr.III	98,645	94,985	3,660	18,151	28,540	(10,389)	4,149	51,040	(46,891)	120,945	174,565	(53,620)
Qtr.IV	192,772	98,051	94,721	42,354	29,736	12,618	4,567	63,954	(59,387)	239,693	191,741	47,952
2004	**653,569**	**340,996**	**312,573**	**131,069**	**120,115**	**10,954**	**13,971**	**181,002**	**(167,031)**	**798,609**	**642,113**	**156,496**

SOURCE: The Central Bank of The Bahamas

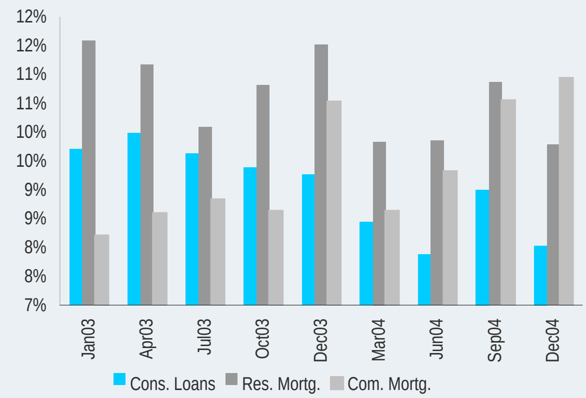
Box I (continued)

As regard credit policies, the Committee noted the increasing dominant role of private sector inflows in supporting bank liquidity and external reserves, and that the public sector's domestic financing needs, while levelling off, were expected to subside in the short to medium term. Asset quality and loan provision levels were also on a gradually improving trend. On this basis, the Committee decided that it was appropriate, and on August 9th announced the removal of credit restrictions imposed on Bahamian dollar lending since September 2001. Further, domestic banks were instructed to be guided by prudential limits when providing new credit to the personal sector, including limiting the existing or resulting debt service ratio to 40%-45% of borrowers' ordinary monthly income, and requiring a minimum equity contribution of 15% towards all personal loans, except for those secured with mortgage indemnity insurance. Following Hurricane Frances, the Bank increased the debt service ceiling to 55% for facilities accessed by business and households for relief purposes.

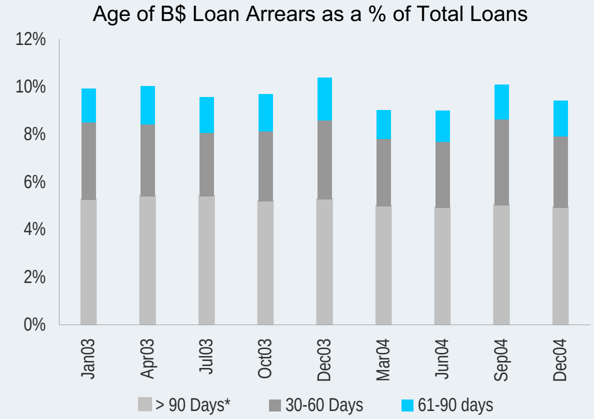
The Bank also evaluated the potential impact of the two hurricanes on lending institutions' loan quality. From a survey conducted, it was disclosed that, on average, 17.2% of outstanding bank loans were to borrowers in the storm impacted Islands, mainly Grand Bahama and Abaco. Among measures taken by lending institutions to assist distressed borrowers, was the suspension of required loan payments for at least three-months, on average.

The quarterly surveys on asset quality indicate that loan servicing difficulties subsided during 2004, and that banks adopted more conservative provisioning policies. Total arrears as a percentage of banks' non-Government guaranteed Bahamian dollar loans, softened to 9.4% of the respective portfolio at end-December 2004 from 10.4% in 2003. This was also incrementally improved from increased servicing difficulties manifested in the September 2004 data, just following the hurricanes. However, the decline in the arrears rate was noticed only for consumer loans and residential mortgages as opposed to some deterioration for commercial loans, occurring in the second half of 2004. Indicative of incidences of newly distressed facilities, the concentration of past due arrears in the 1-2 month range also softened, after heightened difficulties at the end of the third quarter. Non-performing loans, representing facilities with 90 or more days past due payments, which also peaked in proportion to the total portfolio in September, ended the year at a softened 4.9% of total claims compared to 5.3% at end 2003.

B$ Loan Arrears as a % of Total Loans



Age of B$ Loan Arrears as a % of Total Loans



In 2003, the Bank Supervision Department began targeting higher loan provisioning levels for domestic financial institutions, to bring averages more in line with international norms. Comparative trends, which span the period since September 2002, indicate that the level of provisioning relative to non-Government guaranteed private sector loans rose steadily from 0.8% to 2.2%. Provisioning as a fraction of non-performing loans approximated an extended 44.9% at end-2004 compared to 40.2% at end-2003 and 33.7% in September 2002.

As regards Exchange Controls, in December, the Committee agreed to a set of proposals, which

Box I (concluded)

were presented to the Government, on further gradual liberalization of capital controls, which also took account of domestic capital markets development needs and ongoing regional integration initiatives. The Government is expected to make a decision on the proposals during 2005. Review continued on the controls affecting domestic banks' foreign currency transactions in relation to the Bahamian dollar open position limit, and the Committee surveyed pension arrangements in the banking sector to ensure that the investment activities of these plans were regularized within the context of existing controls.

Progress was also made in fine tuning the Bank's monetary sector forecasting framework. The Bank is mindful of the importance of domestic credit policies being carried out within a sound and informed framework and will continue to refine these efforts in 2005. Steps were also taken to increase public disclosures on the economic data informing the monetary policy formulation process. In September, the MPC began publishing a summary of Monthly Economic and Financial Developments, covering data and analysis on selected trends monitored by the Bank. This framework will be reviewed and enhanced during 2005.

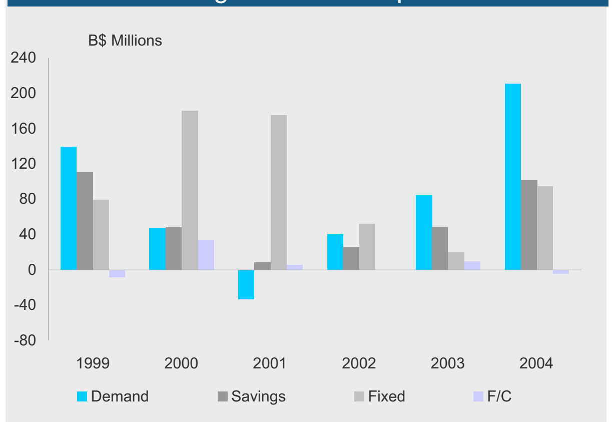
For the year, the Bank's net purchase from commercial banks rose by 66.9% to $312.6 million, in the context of robust private sector inflows. Net sales to other customers, mainly the public corporations, rose by 8.1% to $167.0 million, while the net purchase from Government narrowed by 83.0% to $11.0 million.

Corresponding to these developments, external reserves expanded by $183.7 million (37.9%) to $667.8 million, significantly extending the $110.9 million (29.7%) increase in 2003. Balances, which averaged $619.9 million over the course of the year, peaked at $675.3 million in July, reached a second half low of $609.1 million in September and recovered thereafter, principally amid re-insurance inflows. At end-2004, reserves were equivalent to an estimated 26.2 weeks of non-oil merchandise imports, compared to 16.6 weeks at end-2003. By law, the Central Bank is required to keep, at a minimum, external balances which are equivalent to 50% of its demand (currency and deposit) liabilities. After excluding this amount from the external balances, the "useable reserves" stood higher at $300.3 million compared to $227.5 million in 2003.

Money Supply

Monetary expansion strengthened during 2004, fueled by the buildup in private sector deposits, linked to elevated tourism and foreign investment inflows. In an accelerating trend, narrow money (M1) rose further by 25.0% to $1,134.4 million, as compared to growth of 11.0% in 2003, and comprised a quarter of the overall stock. Growth in demand deposits more than doubled to $210.6 million (28.2%), reflecting activity by private

Changes in Bank Deposits



individuals alongside some shift in public corporations' balances from fixed deposits. Growth in currency in circulation firmed to 10.3% from 3.4% the previous year.

Expansion in broad money (M2) advanced strongly to $422.6 million (10.8%) from $157.4 million (4.2%) in 2003 and $119.3 million (3.3%) in 2002. Savings deposits growth—mainly attributed to private individuals—was extended to $101.1 million (14.9%) from $48.1 million (7.6%) in 2003, and business and private individuals' placements underpinned the widening in fixed deposits gains to $94.4 million (4.1%) from $19.7 million (0.9%) in 2003.

Reversing last year's $9.7 million (10.6%) recovery, residents' foreign currency deposits fell by $4.4 million (4.3%) which was not significant in the overall trends, as overall money (M3) growth accelerated sharply to $418.2 million (10.4%), for an end-year stock of $4,421.5 million. This contrasted with the previous year's more modest

TABLE 9: Flow of Credit In The Financial System *(B$ Millions)*

	Outstanding as at 2001	2002	Absolute Changes 2003	2004	Outstanding as at 2004
Destination					
Government (net)	626.0	25.4	(144.9)	40.6	547.1
Central Bank	187.4	(14.4)	(64.6)	33.5	141.9
Commercial Banks	435.4	39.9	(81.6)	7.2	400.9
Other Financial Local Institutions	3.2	(0.1)	1.3	(0.1)	4.3
Rest of Public Sector	149.2	70.2	153.5	(32.2)	340.7
Central Bank	7.9	(0.3)	(0.3)	1.3	8.6
Commercial Banks	141.2	70.5	153.9	(33.5)	332.1
Other Financial Local Institutions	0.1	-	(0.1)	-	-
Private Sector	3902.1	167.5	25.0	244.8	4339.4
Commercial Banks	3781.9	143.7	22.3	251.8	4,199.7
Other Financial Local Institutions	120.2	23.8	2.7	(7.0)	139.7
Financing					
Liabilities to the private sector & rest of the public sector	3717.1	119.1	167.1	418.2	4421.5
Currency	153.5	1.3	5.3	16.5	176.6
Demand deposits	705.7	27.9	102.8	209.3	1,045.7
Savings deposits	606.5	28.6	47.3	101.7	784.1
Fixed Deposits	2251.4	61.3	11.7	90.7	2,415.1
International reserves	312.4	60.8	111.1	183.5	667.8
Other net external liabilities ( ) = increase	(546.9)	(183.6)	102.4	64.3	(563.8)
Capital and surplus	755.5	65.9	308.4	89.8	1,219.6
Other (net)	29.8	44.7	228.4	7.0	309.9

SOURCE: The Central Bank of the Bahamas

firming in growth, to $167.1 million (4.4%) from $119.1 million (3.2%) in 2002.

Bahamian dollar fixed deposits remained the largest component of the money stock (54.5%), followed by demand (21.7%) and savings (17.6%) deposits. The remainder consisted of currency in the hands of the public (4.0%) and residents' foreign currency deposits (2.2%). Categorized by holder, private individuals held the largest share of Bahamian dollar deposits (57.4%), followed by business firms (27.1%), the public sector (7.9%), private financial institutions (3.9%) and others (3.7%)—which included institutional investors.

Based on the value and number of deposit accounts, holdings in individual balances under $10,000 represented 90.1% of contracts but only 8.3% of the total liabilities. Conversely, balances over $50,000 constituted 77.4% of the value of deposits but only 3.0% of the accounts, and placements valued between $10,000 and $50,000 represented 6.9% of the accounts and 14.3% of the value.

Domestic Credit

Domestic credit rose briskly at the onset of 2004—even prior to the August removal of the credit ceiling—attaining annual growth of $253.2 million (5.1%) compared with $33.6 million (0.7%) million in 2003 and almost approximating the $263.1 million (5.6%) increase recorded in 2002. Bahamian dollar lending dominated the uptrend, with a more than three-fold higher advance of $319.4 million (7.4%), while the contraction in

TABLE 10: Sectoral Distribution of Bank Credit *(B$ Millions)*

Sector	2001		2002		2003		2004	
	$	%	$	%	$	%	$	%
Agriculture	15.8	0.4	9.0	0.2	10.6	0.2	9.1	0.2
Fisheries	6.7	0.2	5.3	0.1	14.9	0.3	12.3	0.2
Mining & Quarrying	23.6	0.6	21.0	0.5	16.7	0.4	17.7	0.4
Manufacturing	67.5	1.6	64.4	1.4	59.6	1.3	55.1	1.2
Distribution	225.5	5.4	220.6	5.0	223.7	5.0	205.9	4.4
Tourism	228.5	5.5	238.8	5.4	218.8	4.8	189.0	4.0
Entertainment & Catering	33.4	0.8	33.4	0.8	34.5	0.8	44.3	0.9
Transport	71.5	1.7	65.0	1.5	32.0	0.7	33.7	0.7
Construction	363.0	8.8	337.2	7.6	277.6	6.2	248.8	5.3
Government	115.4	2.8	170.0	3.8	74.5	1.7	78.2	1.7
Rest of Public Sector	133.2	3.2	202.5	4.6	347.0	7.7	313.5	6.7
Private Financial Institutions	28.2	0.7	36.6	0.8	28.9	0.6	20.2	0.4
Professional & Other Services	125.0	1.7	130.5	2.9	129.4	2.9	115.8	2.5
Personal	2,548.7	61.5	2,712.6	61.2	2,809.4	62.4	3,094.6	65.9
Miscellaneous	156.5	5.1	185.6	4.2	218.7	5.0	259.9	5.5
TOTAL	4,142.5	100.0	4,432.5	100.0	4,496.3	100.0	4,698.1	100.0

SOURCE: The Central Bank of The Bahamas

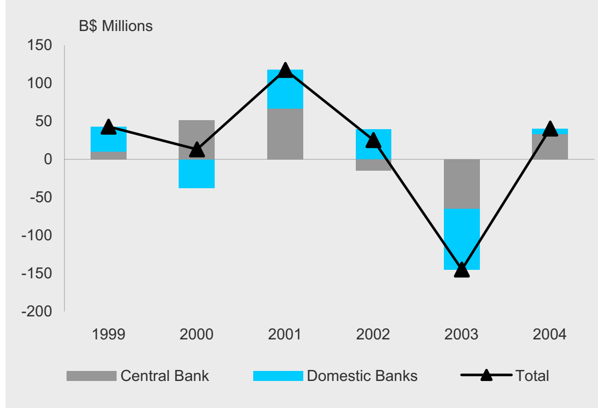
foreign currency claims was extended to $66.2 million (9.9%), from $56.8 million (7.8%) in 2003.

Dominated by lending to households, private sector credit growth intensified to $244.8 million (6.0%) from $25.0 million (0.6%) in 2003. Expansion in the Bahamian dollar portion more than tripled to $274.3 million (7.4%), while industrial sector repayments translated into a further decline in foreign claims by $29.5 million (7.2%).

Personal loans, which represented 71.9% of private claims, rose at an accelerated pace of $285.1 million (10.2%) compared to $96.9 million (3.6%) in 2003. This included a net firming in consumer credit of $86.4 million (6.2%) following a net repayment of $57.3 million (3.9%) in 2003, and a strengthened net advance under housing (mainly residential mortgages) of $191.4 million (14.6%). Nearly stable growth was recorded in personal overdrafts of $5.5 million (10.9%).

A significant but narrowed net repayment of $53.6 million (4.2%) occurred against claim on other private sector activities, signalling a further reduction in credit to the business sector. These included larger net repayments for tourism ($29.8 million), professional & other services ($13.6 million) and private financial institutions ($8.7 million), with a downturn in credit for agriculture and fisheries ($4.0 million) and distribution ($17.8

Changes in Net Claims on Government



million). Sectoral claims also decreased further for construction ($28.8 million) and manufacturing ($4.5 million). Conversely, a larger net advance was registered for miscellaneous ($41.1 million) and entertainment & catering ($9.9 million) loans, alongside a net upturn in lending for transport ($1.7 million) and mining & quarrying ($1.0 million).

Under consumer credit, important trend reversals included a net rebound in lending for credit cards ($17.8 million), home improvement ($4.9 million), consolidation of debt ($3.1 million) and furnishings & domestic appliances ($1.2 million). Net lending was notably increased for land purchases ($29.8 million) and miscellaneous purposes ($39.7 million), and the net repayment was sharply reduced for private cars ($8.7 million) and education ($3.0 million) loans.

Growth in banking sector claims on the public sector steadied at 1.0%. Concentrated in local currency, net claims on Government rebounded by $40.6 million (8.0%), in contrast to the externally financed net repayment of $144.9 million (22.2%) in 2003. The public corporations recorded a net repayment of $32.2 million (8.6%), as opposed to growth of $153.5 million (70.0%) in 2003, that mainly respresented refinancing of external liabilities.

TABLE 11: Foreign Assets Position *(B$'000)*

	2001	2002	2003	2004
1. THE CENTRAL BANK				
EXTERNAL RESERVES (Beginning of the Year)	342,561	312,399	373,168	484,324
a. SALES TO:				
i) Commercial Banks	275,857	254,465	369,958	340,996
ii) Government	137,568	163,372	246,806	120,115
iii) Other Customers	142,986	132,182	170,325	181,002
iv) Total Sales	556,411	550,019	787,089	642,113
b. PURCHASES FROM:				
i) Commercial Banks	396,198	317,489	557,230	653,569
ii) Government	100,985	244,766	311,216	131,069
iii) Other Customers	15,608	25,053	15,779	13,971
iv)Total Purchases	512,791	587,308	884,225	798,609
c. Gold Bullion	-	-	-	-
d. Reserve Tranche	(288)	641	800	441
e. SDR Tranche	(4)	(8)	(87)	13
f. Other	13,750	22,847	13,307	26,549
g. Revaluation Gains (Losses) on Securites	-	-	-	-
INCREASE/(DECREASE)	(30,162)	60,769	111,156	183,499
EXTERNAL RESERVES (End of Year)	312,399	373,168	484,324	667,823
2. DOMESTIC BANKS				
NET FOREIGN ASSETS (Beginning of the Year)	(426,702)	(546,910)	(730,471)	(628,060)
a. Foreign Exchange Transactions	(44,690)	14,314	36,643	(3,740)
i) Net Purchase/(Sale): Central Bank	(120,341)	(63,024)	(187,272)	(312,573)
ii) Net Purchase/(Sale): Other Customers	75,651	77,338	223,915	308,833
b. Changes in Local Liabilities	290,461	335,500	398,541	488,862
c. Changes in Local Assets	410,669	519,061	296,130	424,632
INCREASE/(DECREASE) (During Year)	(120,208)	(183,561)	102,411	64,230
NET FOREIGN ASSETS (End of the Year)	(546,910)	(730,471)	(628,060)	(563,830)
3. TOTAL NET FOREIGN ASSETS (End of year)	(234,511)	(357,303)	(143,736)	103,993

SOURCE: The Central Bank of The Bahamas

Interest Rates

In interest rate developments, the weighted average spread on banks' loans and deposits narrowed by 64 basis points to 7.47% during 2004. More competitive lending conditions resulted in a softening in the weighted average loan rate, by 79 basis points to 11.25%, while the counterpart deposit rate moderated by only 15 basis points to 3.78%. The average 90-day Treasury bill rate also fell by 122 basis points to 0.56%. However, benchmark rates—the Central Bank's Discount Rate and commercial banks' Prime—held steady at 5.75% and 6.00%, where they have respectively remained since June and July 1999.

On the lending side, the easing was marked by a reduction in the average rate for consumer loans, by 85 basis points to 12.98%; residential mortgages, by 16 basis points to 8.83% and commercial mortgages, by 54 basis points to 9.04%. In contrast, the average rate on overdrafts rose by 12 basis points to 11.68%. In the deposit categories, the average savings rate fell by 8 basis points to 2.58% and the average range on fixed deposits was lowered to 3.68% - 4.32% vis-à-vis 3.81% - 4.59%.

Net Foreign Assets

Supported by the buildup of external reserves and a reduction in domestic foreign currency credit, the financial system's external balance sheet position switched from a net liability of $144.0 million in 2003 to a net asset of $104.0 million at end-2004. Domestic banks' net foreign liabilities decreased by $64.3 million (10.2%) to an estimated $563.8 million. The Central Bank's external reserves were boosted by $183.7 million (37.9%) to $667.8 million, with the average monthly level 27.1% higher at $619.9 million.

Bank Profitability

More favourable economic conditions and accelerated balance sheet growth contributed to some turnaround in profitability trends in the domestic banking sector.

In the four quarters through September 2004, the most recent annual period for which data were available, the net income of domestic banks rose by $17.7 million (13.6%) to $148.1 million, reversing a $14.7 million (10.1%) drop to $130.4 million in 2003. With the effective interest rate spread on Bahamian dollar loans and deposits increasing to 6.32% from 6.08%, the net interest margin rose by $19.0 million (7.0%) to $290.8 million. Commission and foreign exchange income was relatively unchanged at $24.9 million. However, operating costs rose by $6.8 million (3.7%) to $191.5 million, mainly linked to occupancy and "other" operating expenses. "Other" income, net of depreciation and bad debt expenses, grew by $5.1 million (27.3%) to $23.9 million.

Expressed as a proportion of average balance sheet assets, the net income ratio (return on assets) firmed to 2.42% from 2.30% in 2003. Although the gross earnings margin, the combined ratio of net interest income and commissions and fee income, narrowed by 5 basis points to 5.17%, efficiency gains were supportive, as the operating cost ratio decreased by 11 basis points to 3.14% of average assets. The contribution from other income (net of depreciation and other non-cash expenses) was higher by 5 basis points at 0.39%.

OTHER FINANCIAL SECTOR DEVELOPMENTS

Indicators of banking, insurance, credit unions and investment funds activity, suggest that the financial sector experienced positive balance sheet trends and stable employment conditions during 2004. While the continued consolidation of operations affected both the banking and insurance sectors, the former was also impacted by ongoing adjustments to the supervisory regime. Meanwhile, securities market trends were highlighted by a resurgence in domestic capital market activity, together with stimulus from international business growth.

Banking Sector

The Central Bank's physical presence requirement policy, adopted for the banking sector in 2001, resulted in a further decrease in the number of banks and trust companies licensed to operate within or from within The Bahamas, by 18 to 266 during 2004. The number of public licensees fell by 12 to 157, while restricted and non-active operations decreased by 6 to 109.

Except for special managed arrangements approved by the Central Bank, as of June 30th 2004, all remaining licensees were required to have met the physical presence requirements, inclusive of a minimum level of dedicated staffing and record keeping within The Bahamas. Given some consolidation of activities, 213 licensees operated through physical presence at end-2004, compared to 216 at end-2003. Another 47 institutions continued under restricted management arrangements approved by the Central Bank, and 6 were still in transition.

The latest balance sheet survey indicated that the total international assets of banks in The Bahamas was in the region of $300 billion, as compared to approximately $6.4 billion in domestic assets held by 24 of the public licensees. Employment remained close to the estimated 4,253 for 2003.

Insurance Sector

The latest available data from the Office of Registrar of Insurance Companies, for 2003, indicate that the domestic insurance sector experienced steady growth; total assets exceeded $870 million and approximately two-thirds was concentrated among life and health insurance companies. The number of licensed insurance operations in The Bahamas increased by 1 to 163 at end-2003, corresponding to an equivalent increment in the number of companies operating in the domestic sector to 59. The number of domestic brokers and agents, and external operators remained at 78 and 26, respectively.

As regards consolidation activities, regulatory approval was granted by the Government for Colina Insurance Company Limited to acquire the domestic operations of Imperial Life Financial, a branch of the Desjardins Financial Security Life Assurance Company of Canada. The approval was recommended by a group of regulators appointed to advise the Minister of Finance on the matter, which included the Central Bank, the Registrar of Insurance Companies, the Securities Commission of The Bahamas, the Compliance Commission, and the Economics Unit of the Ministry of Finance.

Securities Industry

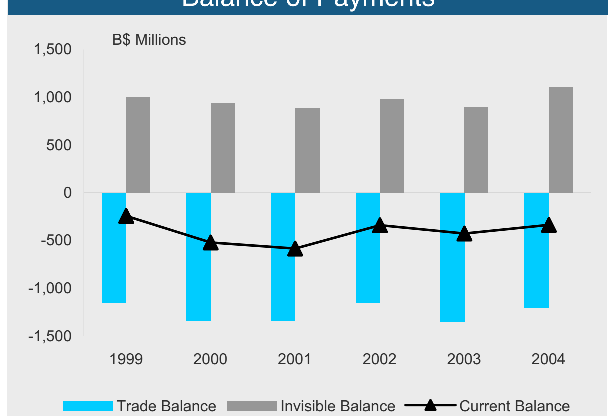
The Securities Commission reported an increase in the number of active investment funds operating from or within The Bahamas, to 788 in 2004 from 721 in 2003, with assets under management advancing moderately above the estimated $107.4 billion for 2003. Based on the structure introduced under the Investment Funds Act of 2003, the majority of the active mutual funds were registered as standard (327), followed by professional (260), recognized foreign funds (124) and SMART (Specific Mandate Alternative Regulatory Test) funds (77).

Capital Markets

Domestic capital market activity was more upbeat during 2004, marked by increase in both trading volumes and values. The volume of securities traded on the Bahamas International Securities Exchange (BISX) nearly doubled to 8.0 million shares, with the value significantly higher at $24.3 million from $7.5 million in 2003. The BISX All Share Price Index appreciated by 19.7% to 1,039.4 points, a marked rebound from the narrowed decline of 2.0% in 2003. Similarly, valuation represented in the broader Fidelity Capital Market Limited's Index (Findex), which captures over-the-counter trading, recovered by 14.9% to 423.0 points, from a tapered loss of 0.6% in the previous year. Total market capitalization on BISX rose by 17.2% to $1.9 billion.

The only private capital offering during the year was the $4.3 million in July by Kerzner International Limited (KZL), the owner and operator of the Atlantis Resort property, through Bahamian Dollar Depository Receipts (BDRs) against shares of KZL listed on the New York Stock Exchange (NYSE). Approximately 10 BDRS were issued for each KZL share, trading locally at one-tenth of the value of the previous day's close of the KZL shares on the NYSE. The Kerzner BDRs were subsequently listed on BISX in August and, along with the November listing of the shares of Bank of The Bahamas Ltd, previously traded over the counter, increased the total number of publicly trading companies on the Exchange, by 2 to 19. Inclusive of over-the-counter instruments, the total number of securities trading locally increased by 1 to 31. The number of investment funds in this total remained at 5, compared to 24 public companies and 2 private debt instruments.

Balance of Payments



Credit Unions

The Department of Cooperative Development reported that the number of credit unions remained unchanged at 19 at year-end 2004. During 2004, total assets of these entities rose by 13.4% to $170.2 million, of which 86.1% was concentrated among the five largest unions which had hotel and public sector membership.

INTERNATIONAL TRADE AND PAYMENTS

Preliminary balance of payments data for 2004 indicated a 19.7% narrowing in the current account deficit to an estimated $334.5 million from $416.5 million in 2003 (see Table 12). Although the trade deficit widened by 12.0%, re-insurance inflows and increased net tourism receipts supported a 22.1% boost in the surplus on the services account. Trends in net income and transfer payments also contributed to the improvement in the current account balance.

TABLE 12: Balance of Payments Summary *(B$ Millions)*

	2001p	2002p	2003p	2004p
I) CURRENT ACCOUNT	(584.2)	(339.2)	(416.5)	(334.5)
i) Merchandise Trade (net)	(1,340.4)	(1,151.1)	(1,203.5)	(1,348.4)
Exports	423.1	446.3	424.7	469.3
Imports	1,763.5	1,597.4	1,628.2	1,817.3
ii) Services (net)	891.0	980.3	901.4	1,101.0
Travel	1,392.1	1,518.2	1,477.3	1,539.3
Transportation	(200.8)	(165.3)	(175.3)	(202.4)
Other	(300.3)	(372.6)	(400.6)	(235.9)
iii) Income (net)	(176.2)	(210.7)	(163.3)	(143.9)
Compensation of Employees	(48.5)	(49.9)	(56.3)	(63.3)
Investment Income	(127.7)	(160.8)	(107.0)	(80.6)
iv) Current Transfers (net)	41.8	42.3	48.7	56.8
Government	45.8	49.0	53.9	59.7
Private	(4.0)	(6.7)	(5.2)	(2.9)
II) CAPITAL AND FINANCIAL ACCOUNT	243.3	380.6	231.9	311.9
i) Capital Account (Transfers)	(21.3)	(24.5)	(37.4)	(47.9)
ii) Financial Account	264.6	405.3	269.3	359.8
1. Direct Investment	102.4	152.8	165.1	272.6
2. Other Investment	162.2	252.5	104.2	87.2
Central Gov't Long Term Capital Flow (net)	6.7	(21.4)	196.0	(4.4)
Other Public Sector Capital	(28.7)	(13.5)	(137.7)	(9.6)
Banks	120.4	183.6	(116.7)	(64.2)
Other	63.8	103.8	158.8	165.4
III) NET ERRORS AND OMISSIONS	310.4	19.3	295.7	206.1
IV) CHANGES IN EXTERNAL RESERVES ( ) = increase	30.0	(60.8)	(111.1)	183.6

SOURCE: The Central Bank of The Bahamas

The trade deficit rose by an estimated 12.0% to $1,348.4 million in 2004. Non-oil merchandise imports increased by 8.3% to $1449.1 million, outweighing goods exports (inclusive of goods procured in ports of foreign carriers) which were higher by 10.5% at $469.3 million. Continued instability in the Middle East and global demand pressures underpinned higher oil prices, which, combined with the 9.2% hike in domestic consumption volume, boosted the oil import bill by 28.6% to $365.5 million. Increased average prices per barrel were noted for propane, by 4.7% to $35.25; motor gas, by 34.1% to $55.23; aviation gas, by 4.9% to $101.59; jet fuel, by 28.4% to $51.79; and gas oil, by 19.3% to $45.46. Conversely, the average cost of Bunker 'C' fuel fell by 32.5% to $23.82.

The estimated surplus on the services account widened by 22.1% to $1,101.0 million, reinforced by the net insurance inflow for hurricane claims settlement, of $127.8 million, which contrasted with the more customary net premium outflow of $91.0 million in 2003. With the pick up in tourism, net travel inflows recovered by 4.2% to $1,539.3 million, while net inflows from offshore companies' local expenses rose by 26.4% to $134.0 million. Although net outflows for transportation services grew by 15.5% to $202.4 million and for "other services" (inclusive of public corporations' external expenses) by 31.9% to $454.7 million, the external net payment for Government services was nearly halved to $29.3 million.

Under the income account, net remittances decreased by 11.9% to an estimated $143.9 million. Net labour income remittances increased by 12.4% to $63.3 million; however, net investment income outflows narrowed by one-fourth to $80.6 million. In particular, net profit and interest repatriation by banks and private companies decreased by 27.6% to $81.6 million (27.6%). This overshadowed net official interest receipts, which fell to $1.0 million from $5.7 million due to expanded interest payments on public sector external debt.

The 16.6% increase in net transfer receipts to $56.8 million resulted from a 10.6% rise in Government's inflows to $59.7 million and a slight reduction in net private outflows, to $2.9 million.

The estimated surplus on the capital and financial account strengthened to $311.9 million from $231.9 million last year. Net migrant transfers advanced to $47.9 million from $37.4 million but were of a comparatively less significant scale to net financial inflows, which widened to $359.8 million from $269.3 million. The upbeat foreign investment climate, particularly in the tourism sector, corresponded to augmented private direct equity net inflows of $181.2 million compared to $80.8 million in 2003, and elevated net private loan financing of $165.4 million relative to $148.3 million. Net foreign real estate sales also firmed to $91.4 million from $84.3 million.

The public sector recorded a net external debt repayment of $14.0 million during 2004, contrasting with a net borrowing of $58.2 million in 2003. In particular, the Government's net repayment of $4.4 million, marginally reversed a net borrowing of $196.0 million, which was linked to the external bond issue. Conversely, the public corporations' net repayment was significantly reduced to $9.6 million from $137.8 million in 2003, which represented an external refinancing of multilateral debt. Meanwhile, the reduction in domestic banks' external short-term liabilities was more tempered at $64.2 million from $102.4 million in 2003.

After adjusting for possible errors and omissions, the overall payments balance, as reflected in the change in the Central Bank's external reserves, was a larger surplus of $183.5 million relative to $111.1 million in 2003.

INTERNATIONAL ECONOMIC DEVELOPMENTS

According to the International Monetary Fund (IMF), the pace of global economic growth for 2004 improved to 5.0% from 3.9% in 2003 and 3.0% in 2002. Although the momentum was buoyed by increased trade flows and firming in private consumption and investments, the volatility and uncertainty in high oil prices posed significant constraints, and are expected to linger in the medium term, despite the anticipated steadying in the global expansion. Output gains in the advanced economies resulted in improved labour market conditions and, in most cases, some consolidation of fiscal imbalances. However, non-oil inflationary pressures initiated monetary policy tightening in the more robust major economies. Although more upbeat investor sentiments supported further appreciation in global equity prices, concerns over the mounting United States' trade and fiscal imbalances caused further depreciation in the country's currency. In the external sector, the estimated current account balance of advanced economies deteriorated, on average, owing to faster growth in imports relative to exports.

Estimated output growth in the major industrialized countries firmed to 3.6% in 2004 from 2.1% in 2003; albeit, with the pace slackening during the second half of the year as higher energy costs eroded private sector confidence. The United States led trends, with annualized real GDP growth of 4.4% compared to 3.0% in 2003, buoyed by increased consumption and investment expenditures, export growth and rising federal government outlays on defense and homeland security. Export growth and steadied domestic demand also underpinned faster expansion in Canadian output, at 2.8% from 2.0% in 2003.

In the United Kingdom, real GDP growth improved to an estimated 3.4% from 2.2% in 2004, buoyed by brisk private consumption and investments, while recovery in domestic demand and export growth elevated euro area real growth to 1.8% from 0.5% in 2003. In particular, Germany experienced an estimated upturn of 1.2% and the expansion in France accelerated to 2.1% from 0.5%. In Japan, real output expansion strengthened to 4.4% from 2.5%, supported by robust exports and rising industrial production, which countered steadily declining public sector investments.

The growth performance was also improved for the developing world and the newly industrialized Asian economies, to 5.5% and 6.6%, respectively. In particular, the expansion in Latin America rallied significantly to an estimated 4.6% from 1.8%, despite the narrowed Caribbean sub-group gain of 0.3% relative to 1.9% in 2003, owing to a disruptive hurricane season. Output expansion firmed marginally in Eastern Europe to an estimated 4.5%, also reflecting some influence from increased oil export revenues and, similarly, for former Soviet-Bloc countries, to 8.0% from 7.8%. Real output gains were also estimated for Africa, at 4.5% compared to 4.3% in 2003, owing both to higher earnings from oil exports and increasing confidence from enhanced political stability. However, continued instability reduced economic expansion in the Middle Eastern countries to 5.1% from 6.0% the previous year.

With employment growth strengthened, the average jobless rate in the major economies softened to an estimated 6.3% from 6.6% of the workforce. Average unemployment in the United States declined to 5.5% from 6.0%; in Canada, to 7.0% from 7.7%; the United Kingdom, to 4.7% from 5.0% and Japan, to 4.8% from 5.3%. The euro area average unemployment rate remained at 8.8%, but with some slight deterioration in both Germany and France, to 9.2% and 9.8%, respectively.

Amid volatile and intensified oil price pressures, average consumer price inflation in the advanced countries firmed to an estimated 2.1% from 1.8% in 2003. Internal pressures also contributed to the accelerated uptrend in average prices in the United States, to 2.7% from 2.3%, while the United Kingdom firmed to 1.6% from 1.4%. The rise in the harmonized euro area average inflation in consumer prices steadied at 2.1%, but with acceleration recorded in both Germany and France, at 1.7% and 2.3%, respectively. Conversely, deflationary trends continued in Japan, with a further 0.2% decrease in average consumer prices.

Despite the accumulated easing that remained in official interest rates, monetary policy developments during 2004 were underlined by a tightening bias among several major central banks in a bid to counter rising non-oil inflationary pressures. Foreshadowing a policy of gradual tightening, the United States Federal Reserve boosted its key target funds rate five times, by a quarter point each, from a historic low of 1.00% to 2.25% at end-December. Similarly, the primary credit rate was raised to 3.25% from 2.00%. Between April and July, the Bank of England increased its key repurchase rate three times, by a quarter point each, to 4.75%, but held off further easing later in the year, when inflation expectations stabilized. The Bank of Canada also adopted an anti-inflation bias, raising its policy rate, on two occasions, by a total of 50 basis points to 2.50%. However, the European Central Bank maintained its refinancing rate at 2.00%, set in August 2003, in the absence of any underlying buildup in domestic price pressures. The Bank of Japan also retained its discount rate at the historic low of 0.1%, while continuing to provide liquidity support to financial markets, to stabilize short-term interest rates.

Although the fiscal shortfall decreased in most major countries, further deterioration in the United States increased the advanced countries' average fiscal shortfall to 3.2% of GDP from 2.9% in 2003. In particular, the United States' elevated spending on defense and homeland security raised the record budget deficit to GDP ratio, to an estimated 4.0% from 2.9% in 2003. Conversely, euro area fiscal trends stabilized, with a marginal decline in the deficit to GDP ratio, to 2.2% from 2.3%, and Germany's and France's respectively narrowed to

3.1% and 1.8%, from 4.0% and 1.9% in 2003. In addition, the estimated deficit in the United Kingdom decreased to 3.0% of GDP from 3.4% a year earlier, while declining public sector investments reduced Japan's fiscal shortfall to an estimated 6.5% of GDP from 6.8% in 2003.

In currency markets, the United States' mounting fiscal and current account imbalances continued to weigh negatively on the value of the dollar; albeit, the rate of decline eased relative to 2003, partly owing to increased interest rates and the strength of other domestic fundamentals. For 2004, the dollar depreciated against the Canadian currency by 9.3% to C$1.20; the Swiss franc, by 8.0% to SF1.4; the euro, by 7.1% to 0.74; the pound sterling, by 6.9% to £0.52 and the Japanese yen, by 4.3% to ¥102.6.

According to the IMF, global non-oil commodity prices rose at an intensified pace of 16.8% in 2004, mainly due to increased demand from major importers, including China. In addition, average petroleum prices advanced further during 2004, by an estimated 28.9% compared to 15.8% in 2003, as supply concerns continued to plague the markets despite relaxed production quotas by OPEC members. Based on year-end comparisons, the per barrel price of crude oil rose by 22.7% to $39.90, peaking at $48.92 in October. Precious commodities prices also firmed, with gold higher by 5.5% to $438.45 per ounce and silver, by 14.8% to $6.82 per ounce.

More upbeat projections for the global economy provided stronger support for global equity prices during 2004 which, according to the Morgan Stanley Capital International (MSCI) World Index, further recovered by 12.8%, following the 30.8% rebound in 2003. In the United States, the Dow Jones Industrial Average (DJIA) closed higher by 3.2% to 10,783.0 and the Standard & Poor's 500 share price index, by 9.4% to 1,211.9 points. Performance in European markets featured a rebound in France's CAC index, by 7.4% to 3821.2 points; Germany's DAX index, by 7.3% to 4,256.1 points and the United Kingdom's FTSE-100 index by 7.5% to 4,814.3 points. In Asia, Japan's NIKKEI-225 index appreciated by 7.6% to 11,488.8 points.

Growth in world trade flows increased to an estimated 8.8% from 5.1% in 2003, albeit having a more positive impact on developing countries' current account balances, as the estimated deficit for advanced economies remained at 0.8% of GDP. In the United States, the mounting trade deficit widened the current account deficit to an estimated 5.7% of GDP from 4.8% in 2003, and the United Kingdom's imbalance rose to 2.2% of GDP from 1.9%. Conversely, increasing net exports widened the estimated euro area current account surplus, to 0.7% of GDP from 0.4% the previous year and Japan's, to 3.5% from 3.1%.

At the 10th Annual Meeting of the International Monetary and Financial Committee of the Board of Governors of the IMF, held in Washington in October, 2004, the Committee welcomed the broadening and strengthening pace of global economic growth and encouraged countries to implement policies and reforms in further support of these trends. In particular, the Committee stressed the importance of addressing medium-term vulnerabilities in the global economy, through consolidation of fiscal and trade imbalances, continued structural reforms in Europe and Japan and the adoption of policies to ensure greater exchange rate flexibility in Asia. The Committee also encouraged policymakers to ensure that all countries were able to participate in opportunities presented by globalization, through continued progress with trade liberalization initiatives, and urged further strengthening of governance and institutional structures in developing countries to achieve the accelerated growth needed to realize the Millennium Development Goals (MDGs).

OPERATIONS

BANKING

Currency Operations

The Central Bank is responsible for the issuance and redemption of the Bahamian banknotes and coins, and is involved in all matters associated with currency in circulation. These include design, the recording of all movements of currency in and out of circulation, and the examination of banknotes for reissue or destruction. Over the next few years, the Bank plans to introduce a new family of banknotes, beginning with a redesigned $10 note in 2005. The designs will incorporate new security features to deter counterfeiting.

During 2004, currency in circulation increased by 6.4% to $255.3 million. Banknotes are issued in denominations of $0.50, $1, $3, $5, $10, $20, $50, $100, with a circulation value of $241.2 million at end-December 2004 (see table below). The balance of $14.0 million, constituted coins in circulation.

Currency in Circulation (B$ Million)

	Notes	Coins	Total
2003	226.7	13.2	239.9
2004	241.2	14.1	255.3
% Change	**6.4**	**6.8**	**6.4**

Foreign Exchange Transactions

The Bank's buying and selling rates for U. S. dollars from/to commercial banks remained fixed at US$1.00 = B$1.0025 and US$1.00 = B$1.0040, respectively for balances, and at par for cash transactions. Foreign exchange rates for the quotation of the pound sterling were obtained each business day from the international market at 9:00 a.m. and 11:30 a.m. and at other appropriate intervals, depending on the dollar value of transactions and market volatility. For sterling sales, the Bank maintained the policy of adding a commission of 0.5% to the mid-rate.
The highest and lowest pound sterling/Bahamian dollar rates employed by the Bank during 2004 are summarized below.

	Buying	Selling	Date Employed
Highest	1.9489	1.9586	December 7, 2004
Lowest	1.7539	1.7627	May 14, 2004

Relations With Public Sector

The Bank provides deposit and foreign exchange services for the Government and public corporations. Credit is also provided, primarily to the Government, within the statutory limits established by the Central Bank of The Bahamas Act, 2000. As Registrar and Transfer Agent, the Bank oversees the issuance of domestic debt securities on behalf of the public sector and records shifts in the ownership of these securities. Current debt securities handled by the Registrar are

Table 13: Bahamas Government Treasury Bills (B$ Millions)		
	2003	2004
Bills Outstanding	179.4	179.4
Average Pricing		
Tender Rate (%)	99.35	99.85
Discount Rate (%)	1.57	0.32
Re-discount Rate (%)	2.07	0.82

Source: The Central Bank of The Bahamas

the Bahamas Government Registered Stock (BGRS) and Treasury bills, Bridge Authority bonds, the Bahamas Mortgage Corporation bonds and the Bahamas Development Bank bonds. Secondary market operations in Government securities, while accommodated by the Bank, are very limited. Efforts continued during the year to develop proposals towards the introduction of a more market driven mechanism for the issuance and trading of Government debt instruments, in a manner that would support further development of the domestic capital markets and BISX.

By law, the maximum amount that the Government can borrow by way of Treasury bills is 20 percent of the lesser of ordinary revenues, as projected in the latest budgetary estimates approved by Parliament, or the average of the latest three years of audited accounts which have been tabled in Parliament. This limit, and the amount of Bahamian dollar Treasury bills outstanding, remained at $179.4 million during 2004 (see Table 13). Other than shifts in holders in the course of the maturity and rollover process, the Bank rediscounted $20 million in bills from commercial banks during the year.

During 2004, the value of Bahamas Government Registered Stocks outstanding increased by 11.9% to $1,552.6 million (see Table 14). The Bank arranged three issues dung the year, totaling $223.3 million, and redeemed a scheduled $57.6 million. Bonds issued during 2004 maintained the upper range for the maturity on domestic debt at 20 years, but reduced the effective cost of the outstanding debt, owing to a decline in the variable interest rates being paid on the lower range of yields offered, of 0.03125% above commercial banks' Prime rate compared to 0.09375% above Prime rate at end-2003.

Table 14: Bahamas Government Registered Stocks *(B$ Millions)*		
	2003	2004
Outstanding (Beginning of yr)	1,304.1	1,386.9
New Issues	136.1	223.3
Less: Maturities	53.3	57.6
Outstanding (End of year)	1,386.9	1,552.6
Interest Yield		
Variable Rates (Prime + Add-On)		
Prime	6.00%	6.00%
Add-0n	0.09375% - 1.50%	0.03125% - 1.50%
Fixed Rates	5.75%-10.50%	5.75% - 10.50%
Maturity Range	2004 - 2023	2005 - 2024

Source: The Central Bank of The Bahamas

The value of outstanding Bridge Authority bonds remained at $28.0 million, with the maturity structure situated between 2014 - 2029. Variable yields ranged between the Prime rate of 6.000% plus 1.000% - 1.625% per annum.

Relations with Domestic Banks

In accordance with Section 19 of the Central Bank of The Bahamas Act 2000, banks are required to maintain "Statutory Reserves" against their Bahamian dollar deposit liabilities. The reserve ratio has remained at 5.0%, since being established in 1974, with a minimum 80% to be held in deposits at the Central Bank. In line with growth in the Bahamian dollar deposit base, the minimum required deposits rose by 9.1% to $168.3 million at end-2004. In addition to these, banks also held surplus balances, which increased by 149.4% to $239.2 million at end-December and represented 62.3% of their total balances with the Central Bank.

Banks' balances with the Central Bank also facilitate domestic cheque clearing arrangements, which continue to be managed by the Central Bank. During 2004, the volume of cheques processed increased by 3.3% to 4.1 million, and represented a 15.7% hike in value to $7,309.1 million.

Payments System Modernization

The Banking Department continued to provide pivotal support for The Bahamas' Payment System Modernization Initiative (PSMI). The Real Time Gross Settlement Systems (RTGS), in which the Central Bank participates along with domestic clearing banks began operations at end-May 2004. Inter-bank payment instructions submitted through the RTGS are settled using bank balances maintained at the Central Bank. The Bank also maintains an electronic depository of Government securities lodged by financial institutions, on standby, as collateral for credit that the Bank might have to provide to meet intraday liquidity needs of

Box II: Update on the Payments System Modernization Initiative

After extensive preparation and collaboration between the Central Bank and the clearing banks, the Bahamas Payment System Modernization Initiative (PSMI) reached the end of its second phase of objectives, with the launching of the Real Time Gross Settlements (RTGS) system in May 2004. The work intensified afterwards, on the final phase, which is to culminate with the establishment of the Automated Clearing House (ACH) during 2005.

The design concepts and features driving the PSMI have benefited from established international standards on modern payments systems, and the role that central banks are expected to play in such regards. These include the useful work spearhead by various committees established by the Bank for International Settlements (BIS), the G10 central banks' Committee on Payments Settlements and the modernization experiences of former Soviet-Bloc countries in Eastern Europe.

The PSMI is being directed by the National Payments Council (NPC), established in 2003, after an extensive survey of the economy's needs and expectations for banking and retail transactions (Phase 1). The NPC formally broadened ownership of the modernization process to the clearing banks, and collaborated closely with the Government and public corporations, as they are important stakeholders in the payments system.

The RTGS System

The Bahamas Interbank Settlement System (BISS), which is a real time gross settlements system, allows clearing banks to electronically transmit and settle large value payments among each other, on a real time basis, with operational hours between 8:30 a.m. and 4:00 p.m. each business day. During the first six months of operations, the system processed an average of 49 transactions daily, with an average value of $30.5 million; volumes have increased steadily since the start up of operations. Payments submitted, which include large value and time sensitive transactions on behalf of bank clients and the public sector, are settled through bank balances maintained at the Central Bank, on an individual basis in the order in which they are transmitted. Liquidity management tools exist to permit banks to obtain intra-day credit from the Central Bank to make large payments if balances are inadequate. To collateralize the facilities, institutions have lodged Government bonds in an electronic depository with the Bank. When utilized, banks are required to repay intraday loans by the close of the business day. This facility does not replace the discount window, through which the Central Bank provides secured credit to banks on an overnight basis.

The Automated Clearing House

Once operational, the ACH infrastructure will facilitate the payment transfer and settlement of relatively low value payments (less than $50,000), and is expected to accelerate the development of electronic commerce, and non-cash transactions denominated in domestic currency. In addition to check clearing and settlements, it is anticipated these will include small value direct debits and credits originated by users in both the public and private sectors.

The inter-bank volume and value of cheques cleared manually in The Bahamas increased steadily from 2.8 million, valued at $3.3 billion in 1994, to 4.1 million instruments valued at $7.3 billion in 2004. In the future, other than those of large value directed through the RTGS, all of these instruments will be processed in some form through the ACH. Nevertheless, the convenience and efficiency of electronic payments is also expected to diminish the use of cheques in the medium term.

The legal, financial, and operational structure for the ACH is being formalized with the objective of having operations started by the second quarter of 2005. To ensure public confidence in the system, all payments processed through the clearing house will enjoy irrevocable guarantee settlement status. Similar to the manual system, inter-bank settlement of claims arising from cheque clearing will be a one business day lag on a net basis, through the RTGS.

At the operational level, the ACH is expected to function through dual entities with co-dependent activities. Rules enforcement, policy setting and oversight of the operations of the clearing house are expected to be assumed by a

Box II (concluded)

legal entity owned by the Central Bank and each of the participating clearing banks, and the technology platform for processing and settlement, by an infrastructure company.

any RTGS participant. It is expected that the final stage of the PSMI, to result in the establishment of the Automated Clearing House (ACH), will also require standby liquidity support mechanisms, in addition to strong legal guarantees to ensure the irrevocable settlement status of retail payments instructions. Box II provides an update of The Bahamas' Payment System Modernization Initiative.

Investment Currency Market

Through the Banking Department, the Bank continued to provide investment dollars to residents to facilitate, among other things, overseas purchases of portfolio and real estate assets. The premium bid and offered rates were unchanged at 20.0% and 25.0%, respectively. The Investment Currency Market opened the year with a balance of $2,662,007.98. Purchases totaled $174,327.42 and sales $25,197.83, for a closing balance of $2,811,137.57 at end-December 2004.

EXCHANGE CONTROL

During 2004, the Exchange Control Department continued its efforts to improve the efficiency of the processing of applications involving foreign exchange transactions and to monitor general demand for foreign exchange by the public. Building upon the earlier operational benefits derived from increased levels of delegated authority to commercial banks (Authorized Dealers), efforts were made to identify commercial instances where blanket approval could be given to accommodate multiple purchases over an annual period.

In its ongoing public relations activities, the Department hosted meetings with several Authorized Dealers to increase awareness of their role in the administration of controls and to provide a forum for the exchange of ideas. Closely related to this initiative, substantial progress was made towards completing a public "Guide to Exchange Controls in The Bahamas", covering, among other things, their rationale, the documentary evidence that should accompany applications for approvals and the norms used in arriving at decisions in non-delegated

Box III: List of Authorized Dealers and Agents

As At December, 2004

Authorized Dealers*

- Bank of The Bahamas (International) Limited ‡
- British American Bank (1993) Limited ‡
- Citibank, N.A. ‡
- Commonwealth Bank (Bahamas) Limited ‡
- Finance Corporation of Bahamas Limited ‡
- FirstCaribbean International Bank (Bahamas) Limited ‡
- Royal Bank of Canada, The ‡, §
- Scotiabank (Bahamas) Limited ‡

Authorized Agents**

- Ansbacher (Bahamas) Limited ‡
- Butterfield Bank (Bahamas) Limited
- Bank of Nova Scotia Trust Company (Bahamas) Limited, The
- Bank of The Bahamas Trust Limited
- CIBC Trust Company (Bahamas) Limited
- Cititrust (Bahamas) Limited
- Fidelity Merchant Bank & Trust Limited ‡
- First Caribbean International Finance Corporation (Bahamas) Limited ‡
- ITK Trust Company Limited
- J P Morgan Trust Company Bahamas Limited
- Latin American Investment Bank Bahamas Limited
- Leadenhall Bank & Trust Co. Limited
- Lloyds TSB Bank & Trust (Bahamas) Limited Ø
- Pictet Overseas Trust Corporation Limited
- Royal Bank of Canada Trust Company (Bahamas) Limited ‡
- SG Hambros Bank & Trust (Bahamas) Limited ‡
- UBS Trustees (Bahamas) Limited

Note: *An Authorized Dealer is a bank which has been authorized by the Central Bank to deal in gold and all foreign currencies, and for this purpose can open and maintain accounts in such currencies within the limits laid down in Exchange Control Notices issued by the Bank. Under authority delegated by the Central Bank, an authorized dealer can approve certain applications for foreign currency within specified limits.

**An Authorized Agent is a bank or trust company authorized by the Central Bank to deal in Bahamian and foreign securities and to act as a custodian for securities in accordance with the terms of Exchange Control Regulations Act, 1965 and Exchange Control Notices issued by the Bank.

‡ Member of the Deposit Insurance Corporation as December 2004

§ Also licensed as an Authorized Agent

Ø Licensee is non-active and in voluntary liquidation.

matters. The Bank plans to publish the document on its website during the first half of 2005.

Efforts also continued to enhance the efficiency of data collection and analysis of foreign investment flows. The Department periodically hosted meetings with the Research Department to discuss mutual data issues, and participated in joint training sessions for domestic banks towards improving their internal systems for capturing data on current and capital account transactions.

The Department was instrumental in framing a set of recommendations for the further liberalization of the Exchange Control regime, in accordance with the longer term objective of preparing the economy to compete globally. These included recommendations to redefine certain limits on portfolio investment flows, that are intended to stimulate the further development of the domestic capital markets and the Bahamas International Securities and Exchange (BISX).

At end-2004, the number of Authorized Dealers and Authorized Agents operating within the domestic banking sector stood at eight (8) and seventeen (17), respectively (see Box III). The decline in the latter was due to the merger of Chase Manhattan Private Bank & Trust (Bahamas) Limited and Morgan Trust Company (Bahamas) Limited with JP Morgan Trust Company Bahamas Limited.

RESEARCH

The Research Department supports the economic surveillance activities of the Central Bank and oversees an important part of the statutory reporting requirements for institutions regulated by the Bank. The Department provides technical input for the formulation of monetary policies and undertakes studies to expand the knowledge base of the Bahamian economy. The publications outlet for economic and financial data include the Bank's Quarterly Statistical Digest, Quarterly Economic Review and the Annual Report. The Bank's website, which continued to be administered by the Department, expedites the release of these reports, and has allowed the Bank to publish other key economic data and reports on a more frequent basis. Website releases include a monthly update of key money and credit statistics and the Monthly Economic Financial Developments (MEFD) report initiated by the Monetary Policy Committee in September 2004.

From the 2004 research agenda, work was finalized on a paper on the implications of trade liberalization for monetary policy in The Bahamas, presented at the 36th Annual Conference of the Caribbean Centre for Monetary Studies (CCMS), hosted by the Central Bank of Trinidad and Tobago in November. Other research carried out during the year included a 30 year review of foreign direct investments in The Bahamas, a paper on investment and capital financing options for the domestic business sector, an analysis of the post-September 11 2001 credit ceiling policy, a review of post-1996 regulatory developments in the financial sector and a survey on inflation in The Bahamas since 1974.

Further, progress was made on technical research to support the work of the Monetary Policy Committee, including a review of the Bahamian dollar open position limit policy, an integral part of the exchange control mechanism governing foreign currency transactions within the banking sector, and refinements to the forecasting framework for the monetary sector of the economy. In close collaboration with the Banking and Exchange Control Departments, the Department extended work on the design of proposals for the introduction of market based mechanism for the issuance of Government domestic debt and continued the review of the exchange control regime. Through the Department, the Bank provided technical input on number of fiscal policy issues, including, public sector foreign currency debt management strategies.

In the area of statistics, the Department continued to improve and update its annual surveys, publishing the results of the 2003 Financial Sector Survey (March 2004 Quarterly Economic Review), the Survey on Retail Banking Fees in The Bahamas (September 2004 Review) and the 2003 Survey on Private Pension Scheme, (December 2004 Review). The Department conducted other surveys to inform regulatory and policy formulation needs on mortgage lending practices in the banking sector, and on domestic fiduciary assets under management. Plans were also finalized to initiate a quarterly survey during 2005 to monitor current trends and conditions among private sector businesses.

In concert with the Computer Department, additional enhancements and improvements were made to statistical information systems addressing, among others, the survey on the financial sector's contribution to the economy and processing of the international banking statistics, in line with the requirements of the Bank for International

Settlements. The Department also commenced online transmission of data to the IMF through the Fund's Integrated Correspondence System (ICS).

The Department maintained close contacts with financial institutions for the collection of monetary and financial statistics, and with important public and private sector entities for balance of payments data. In support of this process and in concert with the Exchange Control Department, a number of tailored training sessions were offered for the staff of various domestic banks. With a view to increasing the timeliness and efficiency of the reporting process, the Department plans to continue the automation of its report forms during 2005, and to explore online transmission alternatives for reporting.

In an effort to enhance the research capabilities and resources of the Bank, work continued on the modernization of the library facilities. Plans were finalized to relocate and modernize the Library facilities within the Bank and software was acquired to automate access to and dissemination of its information resources.

BANK SUPERVISION

In 2004, banking supervision activities focused on consolidating the efforts at achieving greater regulatory effectiveness primarily through:

- completion of the programme to phase out "managed" or shell banking operations, which began towards the end of 2000;
- continuation of onsite examinations, with a broadening of the focus from anti-money laundering to the full range of safety and soundness issues;
- continuing development of co-operative ties with foreign banking regulators; and
- completion of the internal reorganization of the Bank Supervision Department started in November 2003.

These and the continuation of the core programmes of licensing, policy formulation and supervisory monitoring are described below.

Licensing Activity and Physical Presence Policy

At end-2000, the Central Bank ceased issuing licences for entities managed through agents in The Bahamas and, in 2001, tightened the minimum operating requirements for existing and future bank and trust company licensees. The new Physical Presence Policy stipulated that existing licensees, which operated on a "shell basis" through managing agents, had to establish a physical presence in The Bahamas by 30th June, 2004 as evidenced, among other things, by a minimum level of dedicated staffing and onshore record keeping. Guidelines released in 2003 further outlined the governance, record keeping and physical facilities requirements necessary to satisfy the physical presence status. Some 184 existing licensees were affected by this policy and were required to review their operating conditions.

Financial institutions which operated with restricted licenses, and the branches of banks originating from countries which comprise the membership of the Basel Committee on Banking Supervision, were permitted to continue to operate through a managed presence under management agreements with other licensees which met certain strict criteria. By end-2004, the transition to full physical presence was largely completed for all affected banks and trust companies. Existing banks continued to merge or make other changes in their corporate structures and a number of new operations were licensed. These adjustments were the main reasons for the reduction in the number of licensees operating in The Bahamas, as many opted not to meet the requirements.

Of the 410 licensees in existence at end-2000, 226 operated through physical presence as compared to the managed operations of 99 subsidiaries and stand-alone entities, 38 managed branches and 47 managed restricted licensees. The number of licensees decreased steadily to 284 by 2003, and further to 266 in 2004. Among the remaining licensees, 213 operated through physical presence as compared to 216 in 2003; a further 47 maintained restrictive management arrangements approved by the Central Bank, and 6 institutions were still in transition. This last group included 2 branches of US banks in the process of obtaining approved management status, 2 licensees in liquidation and 2 still in transition to physical presence. Box IV provides a listing of the banks and trust companies licensed to operate from or within The Bahamas as at end-2004.

During 2004, the Department continued to make recommendations to the Governor on the issuance, revocation or amendment of bank and trust company licensees (see Table 15). As a result, 5 new licenses were granted and 23 revoked—mostly relating to managed banks.

Box IV: Banks and Trust Companies Licensed to Operate within and from within The Bahamas
As at December 31, 2004

Public Banks & Trusts Companies

1. Andbanc (Bahamas) Ltd
2. Ansbacher (Bahamas) Ltd
3. Arner Bank & Trust (Bahamas) Ltd
4. Austrobank (Overseas) Ltd
5. BAC Bahamas Bank Ltd
6. Banca del Gottardo
7. Banca del Sempione (Overseas) Ltd
8. Banco Atlantico (Bahamas) Bank & Trust Ltd
9. Banco del Istmo (Bahamas) Ltd
10. Banco del Pichincha Ltd
11. Banco Internacional de Costa Rica Ltd LQD
12. Banco Nacional de Mexico S.A.
13. Banco Popular Int'l Ltd
14. Banistmo Int'l (Bahamas) Ltd
15. Bank of Nova Scotia Trust Co. (Bahamas) Ltd, The
16. Bank of The Bahamas (international) Ltd
17. Bank of Tokyo-Mitsubishi Trust Co., The
18. BankBoston Trust Co. Ltd
19. Banque Privee Edmond de Rothschild Ltd
20. Banque SCS Alliance (Nassau) Ltd
21. Barclays Bank Plc
22. Barrington Bank Int'l Ltd
23. BBM Bank Ltd
24. BluBank Ltd
25. BSI Overseas (Bahamas) Ltd
26. Butterfield Bank (Bahamas) Ltd
27. CIBC Trust Co. (Bahamas) Ltd
28. Citco Bank & Trust Co. (Bahamas) Ltd
29. Cititrust (Bahamas) Ltd
30. Corner Bank (Overseas) Ltd
31. Credit Suisse (Bahamas) Ltd
32. Credit Suisse First Boston (Bahamas) Ltd
33. Credit Suisse First Boston Brazil (Bahamas) Ltd
34. Credit Suisse Wealth Management Ltd
35. Cuscatlan Int'l Bank & Trust Ltd
36. Dartley Bank & Trust Ltd
37. Deltec Bank & Trust Ltd
38. Deutsche Bank Trust Co. Americas
39. Eni Int'l Bank Ltd
40. Eurobanco Bank Ltd
41. Ferrier Lullin Bank & Trust (Bahamas) Ltd
42. Fidelity Merchant Bank & Trust Ltd
43. Finance Corp. of Bahamas Ltd
44. Finter Bank & Trust (Bahamas) Ltd
45. First Trust Bank Ltd
46. FirstCaribbean Int'l Bank (Bahamas) Ltd
47. Franklin Templeton Fiduciary Bank & Trust Ltd
48. Gottardo Trust Co. Ltd
49. Guaranty Trust Bank Ltd
50. Habib Banking Corp. Ltd
51. Hottinger Bank & Trust Ltd
52. HSBC Investments (Bahamas) Ltd
53. Intercredit Bank & Trust Ltd LQD
54. Istituto Bancario San Paolo di Torino - Istituto Mobiliare Italiano S.p.A. (San Paolo IMI S.p.A.)
55. ITK Trust Co. Ltd
56. J Safra Bank (Bahamas) Ltd
57. J.P. Morgan Trust Co. (Bahamas) Ltd
58. JPMorgan Chase Bank
59. Leadenhall Bank & Trust Co. Ltd
60. Lombard Odier Darier Hentsch Private Bank & Trust Ltd
61. MeesPierson (Bahamas) Ltd
62. Mizuho Corporate Bank (USA)
63. MMG Bank & Trust Ltd
64. National Bank of Canada (Int'l) Ltd
65. Oceanic Bank & Trust Ltd
66. Pasche Bank & Trust Ltd
67. Pictet Bank & Trust Ltd
68. POBT Bank & Trust Ltd
69. Pribanco Internacional Ltd
70. Private Investment Bank Ltd
71. Private Trust Corp. Ltd, The
72. Royal Bank of Canada Trust Co. (Bahamas) Ltd
73. Safra Int'l Bank & Trust Ltd
74. Santander Bank & Trust Ltd
75. Sentinel Bank & Trust Ltd
76. SG Hambros Bank & Trust (Bahamas) Ltd
77. SG Hambros Bank & Trust (Bahamas) Ltd [Res. Br.]
78. St. James Bank & Trust Co. Ltd, The
79. Sud Bank & Trust Co. Ltd
80. Syz & Co. Bank & Trust Ltd
81. Transamerica Bank & Trust Co. Ltd
82. UBS (Bahamas) Ltd
83. Unibanco - Uniao de Bancos Brasileiros S.A.
84. Union Bancaire Privee
85. United European Bank & Trust (Nassau) Ltd
86. Westrust Bank (Int'l) Ltd
87. Winterbotham Trust Co. Ltd, The

Public Banks

88. Banca Serfin, S.A.
89. Banco BBM S/A
90. Banco Bilbao Vizcaya Argentaria, S.A.
91. Banco Boavista InterAtlantico S.A.
92. Banco de Bogota (Nassau) Ltd
93. Banco Espirito Santo, S.A.
94. Banco Fibra S.A.
95. Banco Itaú BBA S.A.
96. Banco Santander Bahamas Int'l Ltd
97. Banco Santander Central Hispano, S.A.
98. Banco Santander Portugal, S.A.
99. Banco Votorantim S.A.
100. Bank Hofmann (Overseas) Ltd
101. Bank Leu Ltd
102. Bank of Baroda

Box IV (continued)

103. Bank of Nova Scotia Int'l Ltd
104. Bank of Nova Scotia, The
105. BankBoston Banco Multiplo S.A.
106. BankBoston, N.A.
107. BGP Banca di Gestione Patrimoniale SA
108. Boavista Banking Ltd
109. British American Bank (1993) Ltd
110. BSI AG
111. Calyon
112. Citibank, N.A.
113. Citicorp Banking Corp.
114. Cofivalle Finance (Bahamas) Ltd
115. Commonwealth Bank Ltd
116. Coral Credit Bank Ltd
117. Credit Lyonnais Suisse (Bahamas) Ltd
118. Credit Suisse First Boston
119. First Overseas Bank Ltd
120. FirstCaribbean Int'l Finance Corp. (Bahamas) Ltd
121. Gonet Bank & Trust Ltd
122. Hang Seng Bank (Bahamas) Ltd
123. Harris Trust & Savings Bank
124. HongKong & Shanghai Banking Corp. Ltd, The
125. HSBC Bank Bahamas Ltd
126. HSBC Private Bank (Suisse) S.A.
127. Latin American Investment Bank Bahamas Ltd
128. Metropolitan Bank (Bahamas) Ltd
129. National Bank of Canada
130. PNC Bank, N.A.
131. Riggs Bank N.A.
132. Royal Bank of Canada
133. Rural Int'l Bank Ltd
134. Santander Investment Bank Ltd
135. Santander Merchant Bank Ltd
136. Scotiabank (Bahamas) Ltd
137. Standard Chartered Bank
138. State Bank of India
139. Union Bancaire Privée (Bahamas) Ltd
140. Votorantim Bank Ltd

Public Trust Companies

141. ATC Trustees (Bahamas) Ltd
142. Bamont Trust Co. Ltd
143. Bank of Hawaii
144. Bank of The Bahamas Trust Ltd
145. BSI Trust Corp. (Bahamas) Ltd
146. Cayside Trust Co. Ltd
147. Credit Lyonnais Management Services (Bahamas) Ltd
148. Credit Suisse Trust Ltd
149. Euro-Dutch Trust Co. (Bahamas) Ltd
150. Experta Trust Co. (Bahamas) Ltd
151. Ferrier Lullin Trust Co. (Bahamas) Ltd
152. Hang Seng Bank Trustee (Bahamas) Ltd
153. Hang Seng Bank Trustee Int'l Ltd
154. PIB Trust Co. Ltd
155. Pictet Overseas Trust Corp. Ltd
156. UBP Int'l Trust Ltd
157. UBS Trustees (Bahamas) Ltd

Restricted Banks

158. Bank of America, N.A.
159. Commercial Bank of Kuwait S.A.K., The
160. International Merchant Bank Ltd
161. Investindustrial Bank Ltd
162. Liverpool-West Indies Bank Ltd

Restricted Banks & Trusts Companies

163. BBA-Creditanstalt Bank Ltd
164. Belgravia Int'l Bank & Trust Co. Ltd
165. Elco Bank & Trust Co. Ltd
166. Fidelity Bank & Trust Int'l Ltd
167. Glen Bank & Trust Co. Ltd, The
168. Royal Bank of Scotland (Nassau) Ltd, The
169. Security Atlantic Bank Ltd

Restricted Trust Companies

170. Anco Trust Corp. Ltd
171. Ark Ltd
172. Arndilly Trust Co. Ltd
173. Atlaw Trustees Ltd
174. Barnacle Two Ltd LQD
175. Bitmore Ltd
176. CAPS A.A. Trust Co. Ltd
177. Cromwell Trust Co. Ltd
178. Devon Trust Co. Ltd LQD
179. Fiduciary Trust Co. (N.P.) Ltd
180. Grampian Trust Co. Ltd
181. Heritage Trust Co. Ltd, The
182. Hermes Trust Co. Ltd
183. Hermin Trust Co. Ltd
184. Kattegat Trust Co. Ltd, The
185. Laurentide Insurance & Mortgage Co. Ltd
186. Leu Trust (Bahamas) Ltd
187. Marien Holdings (Bahamas) Ltd
188. Nashville Trust Co. Ltd
189. Portland Trustee Ltd
190. Ranco Capital Trust Group Ltd
191. Sarofina Ltd
192. Securitas Holding Corp.
193. SG Hambros Corporate Services (Bahamas) Ltd
194. Sovereign Trust Co. Ltd LQD
195. TK Trust Co. Ltd, The
196. Troika Trust Ltd
197. Trubasem Services Ltd

Box IV (concluded)

Restricted Nominee Trusts Companies

198. Adansonia Investments Ltd
199. Albacore Investments Ltd
200. Amazonas Investments Ltd
201. BAHTCO Holdings Ltd
202. Bannervale Investments Ltd
203. Bay State Corp. Ltd
204. Beaumont Nominees Ltd
205. C.B. Management Ltd
206. C.B. Strategy Ltd
207. Cape Ann Corp. Ltd
208. Cedar Holdings Inc.
209. Cerchio Ltd
210. Cipriani Corp. Ltd
211. Delacroix Ltd
212. Delaroche Ltd
213. Dragonian Investments Ltd
214. Durrington Ltd
215. Ebony Nominees Ltd
216. Elco (Nominee) Ltd
217. Elco (Trustee) Ltd
218. Erie Ltd
219. Fife Ltd
220. First Nat'l Nominees Ltd
221. FirstCaribbean Int'l (Bahamas) Nominees Co. Ltd
222. Frederick Investments Ltd
223. Goshen Investments Ltd
224. Grahamco Ltd
225. Hamaca Nominee Ltd
226. I.B.A. Nominee Trust Ltd
227. Ivory Nominees Ltd
228. Lighthouse (Nassau) Ltd
229. Lighthouse Consulting (Nassau) Ltd
230. Lighthouse Corporate Holdings (Nassau) Ltd
231. Lighthouse Nominess (Nassau) Ltd
232. LTSB Nominees Ltd
233. Maddox Ltd
234. Magog Ltd
235. March Ltd
236. Maridi Investment Co. Ltd
237. Mercury Nominees Ltd
238. Nomco Ltd
239. Orion Nominees Ltd
240. Pelican Investments Ltd
241. Prosperite Nominees Ltd
242. Providence Associates Ltd
243. Remus Investments Ltd
244. Romulus Investments Ltd
245. Saussure Nominees Ltd
246. Scotia Nominees (Bahamas) Ltd
247. Sfera Ltd
248. Superior Ltd
249. Three Keys Ltd
250. Trunoms Ltd
251. Universe Nominees Ltd
252. Virgo Holdings Inc.
253. Welland Ltd
254. Wolnoms Ltd
255. Wun Holdings Inc.

Restricted Non-Active Banks

256. Gulf Union Bank (Bahamas) Ltd LQD
257. Lloyds TSB Bahamas (Americas) Ltd LQD
258. Standard Chartered Bank Bahamas Ltd

Restricted Non-Active Banks & Trusts Companies

259. Bank of America Trust & Banking Corp.
260. (Bahamas) Ltd
261. Equator Bank Ltd
262. Gulf Union Bank Ltd LQD
263. Lloyds TSB Bank & Trust (Bahamas) Ltd LQD
264. Pan American Bank Ltd
265. Riggs Bank & Trust Co. (Bahamas) Ltd
266. Socimer Int'l Bank Ltd LQD

Restricted (Non-Active) Trust Companies

267. Canbank Nominees (Nassau) Ltd

Explanatory notes:

LQD: Denotes that licensee is in liquidation.

Public Licensee: A public bank and/or trust company is one which is permitted to carry on banking and/or trust business with members of the public.

Restricted Licensee: A restricted bank and/or trust company is one which is allowed to carry on business for certain specified persons which are usually named in the license.

Nominee Trust Licensee: A nominee trust company is a restricted licensee which holds securities and other assets in its name on behalf of clients of its parent bank or trust company, but carries on no other trust business.

Non-Active Licensee: A non-active company is one which is either in voluntary liquidation or requires close monitoring or it is dormant. Note is made that dormant licensees have only been granted to recognised banking groups.

TABLE 15: Banks and Trust Companies Licensed in The Bahamas

	PUBLIC			RESTRICTED			NON-ACTIVE			
	B&T	B	T	B&T	B	T& T(Nom)	B&T	B	NOM T	TOTAL
December 2003	94	57	18	5	8	91	7	3	1	284
Add Licenses issued in 2004	2	0	1	0	0	2	0	0	0	5
Less Licenses revoked in 2004	4	4	2	0	2	9	1	1	0	23
Sub Totals	**92**	**53**	**17**	**5**	**6**	**84**	**6**	**2**	**1**	**266**
Licenses upgraded or downgraded	-5	0	0	2	-1	2	1	1	0	0
December 2004	**87**	**53**	**17**	**7**	**5**	**86**	**7**	**3**	**1**	**266**

B=Bank, T=Trust, T(Nom)=Nominee Trust

Note: Gross License Fees during 2004 amounted to approximately $6.851 million.

Source: The Central Bank of The Bahamas

On-site Examinations

Since introduced in 2000, on-site examinations have become an integral part of the supervision of banks and trust companies in The Bahamas. The second cycle of examinations, which began during 2003, continued in 2004. Although the number of examinations was halved to 32 from 64 in 2003 (see Table 16), the scope of the typical examination was considerably more complex than in previous years. These "safety and soundness" examinations covered a wider range of issues, notably the quality of credit being extended and corporate governance arrangements. While the examinations in earlier years had included a significant number of managed banks, which required less time and resources, the second cycle concentrated more on banks with a physical presence. A higher proportion of examinations in 2004 also focused on larger and higher risk-rated banks, which typically extended the duration. The resource constraint experienced during the year is expected to be remedied, amid ongoing plans to recruit more Examiners in 2005.

Other Domestic Supervisory Actions

During 2004, the Department's Supervisory Units continued to carry out in-depth assessments of the ongoing financial positions of active banks and trust companies. The operating viability of the licensees as going concerns and their compliance with the Bank's requirements regarding liquidity, solvency, risk and management, were investigated and appraised.

With a view to promoting 'fit and proper' management of banks and trust companies, the Bank sought to ensure that persons who control and manage the business of a bank or trust company possess the highest credentials and have the appropriate experience to carry out their responsibilities. The Department reviewed and recommended the approval of the appointments of 133 directors and 206 senior officers during the year. In addition, a total of 96 meetings was held with 59 licensees to discuss prudential issues.

The Department remained vigilant in its practice of collecting and disseminating information on instances of attempted fraud or questionable activities brought to its attention by targeted institutions, the public, or other regulatory agencies. The Bank's website is regularly updated with warning notices to the public, providing timely information on suspected fraudulent schemes and unlicensed entities purporting to be banks or trust companies. To assist in this effort, the Attorney General's Office, the Royal Bahamas Police Force, the Postmaster General, the Bahamas Telecommunications Company, the Registrar General and other financial sector regulatory authorities are routinely advised of these matters. For the public's benefit, the Bank's website was enhanced during 2004 to permit users to conduct interactive queries regarding the official list of Bahamian licensees.

TABLE 16: Onsite Examinations Conducted (2002-2004)			
Description	*2002*	*2003*	*2004*
Examinations			
Licensees (physical presence)	59	33	24
Managed Banks	32	22	0
Domestic Licensees	2	3	2
Follow-up examinations	9	6	6
Total Examinations	**102**	**64**	**32**

Source: The Central Bank of The Bahamas

The Department continued an ambitious work programme to strengthen its prudential regulations and provide clear guidance to licensees. This work has been guided by the Bank's Basel Core Principles Self-Assessment and the recent Module II Assessment of The Bahamas, conducted by the International Monetary Fund in 2002. The self-assessment was viewed as an appropriate starting point as it identified the major areas for policy clarification and improvement. The Department's Policy Unit (formed in January 2002) was very active in this regard, and sought again to ensure a transparent and consultative approach to policy development with licensees and other stakeholders in the financial system.

Policy action in 2004 included:

- **an amendment to the Guidelines on the Requirements for the Continuation of the Management of Restricted Banks and Trust Companies (Currently without a Physical Presence), first issued in May 2002.** The change allows an exemption from the requirement to maintain at least one resident non-executive director for restricted trust companies whose operations are limited to conducting business on behalf of one client or clients who are members of the same group.
- **the release, in May 2004, of Guidelines on The Minimum Standards for the Outsourcing of Material Functions.** Changes in technology and the constant search by licensees for ways to maintain operating efficiency with lower costs have presented numerous issues in The Bahamas and in many other jurisdictions. When the Central Bank surveyed licensees in 2002, it was discovered that outsourcing, particularly of technology and data processing, accounting and back office functions, had become prevalent in The Bahamas. These Guidelines outline the applicable conditions for Central Bank approval of the outsourcing of material functions.
- **the release, for public consultation, in June 2004, of Guidelines for the Management of Capital and the Calculation of Capital Adequacy.** These outline the framework adopted by the Central Bank for assessing the adequacy of a licensee's capital and are consistent with the Basel Committee's Paper on the Convergence of Capital Standards, commonly known as Basel I. The Central Bank aims to ensure that all licensees maintain adequate capital to protect against the risks of their operations.
- **the release, for industry consultation, in June 2004, of Minimum Disclosure Guidelines.** These recognize that the provision of timely financial information to the public is an important mechanism for enhancing market discipline. The Guidelines have been based on International Financial Reporting Standards and outline the minimum financial disclosures for licensees in annual audited statements.
- **the release, for industry consultation, in October 2004, of Draft Guidelines on Impaired Assets.** The Guidelines provide uniformity in the identification, measurement and monitoring of impaired assets.

Looking ahead, the Bank is very aware that it has two substantial challenges concerning the future implementation of the new internationally agreed bank capital requirements (known as Basel II) and the further development of The Bahamas' handling of the consolidated supervision of groups. With Basel II, the Central Bank considers that 2010 is the earliest feasible date for the introduction of the Standardized Approach. However, to be successful, even this will require considerable consultation with the industry, and training of supervisory staff. To begin the process, the Bank plans to carry out a quantitative impact study in 2005, which should help to identify, with a sample of co-operating banks, the scale of the changes that might be required. On the development of consolidated supervision, the Central Bank is working closely with other members of the Caribbean Group of Banking Supervisors (CGBS). The Bank also plans to adopt policies, in due course, on consolidated supervision, and the regulation of holding companies and complex financial groups.

Asset Quality of Domestic Banks

As part of the general enhancement of supervisory practices in the jurisdiction, the Department continued to significantly upgrade its analysis and monitoring of the quality of domestic retail banks' loan portfolios. These institutions are required to submit detailed quarterly reports on loan quality and provisions—areas that are now regularly included in on-site examinations.

The statistics and their economic significance are considered elsewhere in the Annual Report (see Box I). However, the numbers indicate prudent domestic bank lending practices, including a close monitoring of loans that fall into arrears and timely decisions regarding provisioning or write-offs. Although the immediate effect of the hurricanes on the volume of provisions and write-offs was limited, some changes are expected during 2005, as the grace period on the suspension of loan payments for distressed borrowers comes to an end.

Regulatory Co-operation in The Bahamas

Established in 2002, the Group of Financial Services Regulators (GFSR) consists of representatives of the Central Bank, the Securities Commission of The Bahamas, the Registrar of Insurance Companies, the Inspector of Financial and Corporate Service Providers and the Compliance Commission. It is chaired by the Governor. During 2004, the Department of Cooperation Development was invited to join the GFSR, thereby formally extending this cooperation network to the credit unions sector.

During 2004, the GFSR met 6 times. Foremost on its agenda was the implementation of the provisions agreed in the domestic regulators' MOU of 2002 for the regulation and supervision of financial conglomerates. As increasingly more integrated financial companies and cross-sector financial groups emerge within the jurisdiction, better co-ordination between the regulators becomes more important to ensure efficient and effective supervision. The 2002 provisions were the basis on which the regulators discussed how to address the implications of the acquisition of the insurance operations of Imperial Life Financial by the Colina Insurance Company Ltd, a subsidiary within the Colina Financial Group.

In addition, the GFSR coordinated its international regulatory co-operation responses (see below) and collaborated on cases within The Bahamas raised by affected members.

International Regulatory Co-operation

Building on the experience in 2003, a number of foreign banking regulators were allowed to conduct on-site examinations of Bahamian licensees owned by banks in these countries. Such examinations are allowed, with strict protection of Bahamian confidentiality laws, for the purposes of consolidated supervision. This courtesy was extended to the Superintendencia General de Entidades Financieres de Costa Rica (SUGEF), the Costa Rican Financial Services Regulatory Agency and the Superintendencia de Banca y Seguros, Peru's Regulatory Agency.

The Central Bank also actively cooperated with other foreign regulators, receiving and responding to 28 requests for information on a variety of regulatory issues from 19 regulatory bodies (see Table 17). This compares to the processing of 30 information requests from 19 countries in 2003. Through the GFSR, the Central Bank has also been working to ensure that regulatory requests, which may require the assistance of more than one regulator are addressed in a timely and effective manner. During 2005, the GFSR intends to produce a guide to assist overseas regulators in framing their requests more effectively within the requirements of Bahamian law and to provide contact points at each of the domestic regulators.

TABLE 17: Requests for Cooperation from Foreign Regulatory Authorities in 2004

Country	No. of Requests	Completed
Antigua	1	1
Bermuda	1	1
British Virgin Islands	3	3
Cayman Islands	1	1
Costa Rica	3	3
Germany	1	1
Guatemala	1	1
Guyana	1	1
Hong Kong	1	1
Jamaica	4	4
Netherlands Antilles	1	1
Panama	1	1
Peru	1	1
Russia	1	1
St. Kitts	1	1
Tanzania	1	1
Trinidad & Tobabo	2	2
Turks & Caicos Islands	2	2
United Kingdom	1	1
Total Requests	28	28

Source: The Central Bank of The Bahamas

Regulatory co-operation between banking supervisors is often facilitated through Memorandum of Understanding (MOU's). During 2004, the Bank concluded MOUs with the Panama Regulatory Authority (PRA), adding to the arrangements in place with Costa Rica and Guatemala. Negotiations are continuing towards similar arrangements with Brazil, Mexico and Ecuador.

CARICOM Financial Sector Harmonization Project

As the financial services industry is The Bahamas' second major industry, prudent policy is extremely important. The country's comparative advantage and competitiveness is driven by, among other things, its legislation and reputation for sound regulation, and its ability to innovate and adapt, to capitalize on market opportunities. Financial sector liberalization and regulatory harmonization must therefore be studied within this context.

While The Bahamas had not committed to the Caribbean Single Market and Economy (CSME) process, the Central Bank continued to closely monitor Caribbean Community proposals on financial sector issues and participated in a working group that is evaluating the CARICOM Financial Services Harmonization Agreement and the Draft Financial Services Bill. The draft Agreement seeks to establish a harmonized framework for the regional provision of financial services, and to reduce existing barriers. The draft Bill seeks to ensure consistent regulatory standards throughout the region.

IMF Roundtable

The Central Bank participated in the IMF's second Annual Offshore Roundtable, which included representatives from both onshore and offshore jurisdictions and the international standards setting bodies. The focus of the 2004 meeting was on enhancing regulatory co-operation between onshore and offshore regulators and on improving the availability of offshore financial sector data to the public.

IMF Module 2 Assessment

The Bahamas' International Fund (IMF) Module II Assessment Report was released in April 2004. The Report provided a review of financial sector supervision in The Bahamas in the context of offshore financial services. Although resource consuming, the Central Bank benefited tremendously from this exercise. It enabled the Bank to assess its compliance with established supervisory standards; to identify its strengths and to take steps to address weaknesses. The Bank has made considerable progress in addressing the recommendations of the Report.

First, the Bank is reviewing the Banks and Trust Companies Regulation Act and benchmarking it against the Basel Core Principles and banking and trust legislation of other jurisdictions. The Bank will soon propose the necessary amendments to the Ministry of Finance to ensure full compliance with the Core Principles. In this regard, the Bank has also secured additional legal resources.

The Bank has strengthened its policy development process by creating a dedicated Policy Unit and has instituted a high level Policy Advisory Committee to review all supervisory policies and to ensure that policies and rulings are consistent with international best practices and the needs of The Bahamas. The Bank is satisfied that the physical presence regime is robust in all of these regards, and is monitoring the remaining managed banks and trust companies with respect to their transition to a physical presence.

Representation at Conferences and Seminars

An important focus of the Bank Supervision Department's staff training and exposure continues to be their participation at overseas conferences and seminars. Box V describes some important international bodies and groups in which The Bahamas participates through various senior staff of the Bank. Meetings attended by senior Bank Supervision staff during 2004 included the following:

- The Caribbean Group of Banking Supervisors Steering Committee meeting, held in Trinidad and Tobago, in January 2004, and the Group's Annual Conference, hosted by the Central Bank of Trinidad and Tobago, in May, 2004.
- The Association of Bank Supervisors of the Americas (ASBA) plenary meeting, hosted by the US Federal Reserve System Board of Governors, in Atlanta, Georgia, in June 2004.
- The 13th Annual Conference of International Bank Supervisors on Banking Supervision, hosted jointly by the Bank of Spain and the Basel Committee in Spain in September 2004.

Box V: The Central Bank's Participation in Selected International Bodies

Body and Purpose	Nature of Participation
Association of Banks of the Americas (ASBA) ASBA was formed in 1999 as a Mexican incorporated company. Its membership is comprised of representatives from banking supervisory and regulatory institutions in 34 countries throughout the Americas, including the United States and Canada. ASBA's mission is to develop, disseminate and promote banking supervisory practices throughout the Americas, in line with international standards. To facilitate this mission, ASBA supports the development of banking supervision expertise and resources in the Americas, through the provision of training and technical cooperation services.	Member and Regional Director representing 14 territories and countries on the ASBA board of directors
Offshore Group of Banking Supervisors (OGBS) The first meeting of the OGBS was held in 1980 in Basel when representatives of a number of offshore centres met with members of the Basel Committee on Banking Supervision. The proposal to form an Offshore Group was welcomed by all concerned as a means of allowing offshore centres to define their common ground more clearly, to participate in the defining and implementation of international standards for cross border banking supervision, and to craft a positive, constructive and coordinated response to the approaches made by other supervisory authorities for assistance in the effective supervision of international banks. The Offshore Group has worked closely with the Basel Committee on the supervision of cross border banking. The Offshore Group also works closely with the Financial Action Task Force (FATF) on money laundering, and is represented on three working groups set up by the FATF as part of the general review of the FATF's Forty Recommendations. Membership in the Offshore Group calls for a clear commitment to the Basel Committee on Banking Supervision's Core Principles, the FATF's Forty Recommendations on money laundering, and the FATF Eight Special Recommendations on terrorist financing. Membership currently stands at 19 and include all of the mainstream offshore centers.	Member
Caribbean Financial Action Task Force (CFATF) CFATF is an organisation of thirty states of the Caribbean Basin, which have agreed to implement common countermeasures to address the problem of criminal money laundering and the financing of terrorism. It was established as the result of meetings convened in Aruba in May 1990 and Jamaica in November 1992. The main objective of the Caribbean Financial Action Task Force is to achieve effective implementation of and compliance with its recommendations to prevent and control money laundering and to combat the financing of terrorism. The Secretariat has been	Financial expert on Mutual Evaluations

Box V (concluded)

Body and Purpose	Nature of Participation
established as a mechanism to monitor and encourage progress to ensure full implementation of the Kingston Ministerial Declaration. Current CFATF members are Antigua & Barbuda, Anguilla, Aruba, The Bahamas, Barbados, Belize, Bermuda, The British Virgin Islands, The Cayman Islands, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Republic of Haiti, Honduras, Jamaica, Montserrat, The Netherlands Antilles, Nicaragua, Panama, St. Kitts & Nevis, St. Lucia, St. Vincent & The Grenadines, Suriname, The Turks & Caicos Islands, Trinidad & Tobago, and Venezuela.	
Caribbean Group of Banking Supervisors (CGBS) The CGBS was formally constituted by the CARICOM Central Bank Governors in 1983 to coordinate the enhancement of bank supervisory practices in the English speaking Caribbean consistent with internationally accepted standards. The core group comprises banking supervisors from The Bahamas, Barbados, Belize, Jamaica, Suriname, Trinidad and Tobago and member countries of the Organization of Eastern Caribbean States (OECS). The core group coordinates regional supervisory initiatives and reports, and makes recommendations to the CARICOM Central Bank Governors. The Group also has active representation from the Central Banks/ Supervisory Agencies of the wider Caribbean e.g. British Virgin Islands, Turks and Caicos Islands, Aruba, Cayman Islands, Haiti and the Netherlands Antilles.	Member
CGBS Steering Committee This Committee gives direction to the CGBS membership regarding projects such as Basel II working group, coordinates training of regional staff and collaboration between the regional supervisory agencies.	Member
CGBS Technical Working Group on Basel II This working group charged with developing a strategy for the implementation of Basel II in member countries and to develop Guidelines and Templates on Basel II.	Member
CGBS Technical Working Group on Consolidated Supervision and Financial Conglomerates This working group is responsible for reviewing and providing advice to the CGBS on consolidated supervision and the supervision of financial conglomerates.	Member

- The Offshore Group of Banking Supervisors annual meeting held in Spain, in September 2004.
- A 'High Level Meeting on the Implementation of Basel II for Latin American and Caribbean Supervisors', co-hosted by ASBA and the Basel Committee on Banking Supervision in Mexico City in December 2004.

Human Resources and Training

In November 2004, Mr. Michael Foot became the new Inspector of Banks and Trust Companies following a career that spanned 29 years at the Bank of England and 6 years as one of the first Managing Directors of the United Kingdom Financial Services Authority (FSA). Part of his remit is to help develop a more unified regulatory regime in The Bahamas and to improve foreign understanding of the regulatory strengths of this jurisdiction. One of his early priorities is to continue the integration of offsite supervision and onsite examination. The eventual aim is to have a significant number of staff who are able to move freely between onsite and offsite work, as the need arises.

The Department's staff complement at year's end was 52. Provisions have been made to recruit another 8 persons at the technical level in 2005, and the Department has budgeted financial resources to continued overseas training in core bank supervision matters and advanced management exposures. A strong emphasis will also remain on in-house training and the availing of courses and seminars offered by other agencies. The staff has continued to benefit from specialized training provided, among others, by the Financial Stability Institute, the Caribbean Group of Banking Supervisors, the United States Federal Reserve System, the Inter-American Development Bank, the World Bank and the Association of Supervisors of Banks of the Americas (ASBA).

In January 2004, the Central Bank sponsored a Credit Risk Analysis course for the staff and regional regulators, facilitated by senior personnel from the US Federal Reserve System. The Bank also sponsored additional training opportunities for its licensees, hosting a half day seminar in December 2004, to update senior staff of banks and trust companies on anti-money laundering measures, including the KYC revisions of December, 2003. The Bank also used the event to update the industry on international cooperation issues affecting the financial sector. The Bank plans to host at least 2 similar seminars in 2005.

Deposit Insurance Corporation

The Deposit Insurance Corporation (DIC) is a strategic component of the prudential regulation and supervision of the domestic banking sector, providing coverage to thirteen (13) member institutions in 2004. Based on average total insurable Bahamian dollar deposits in banks of $3.4 billion during 2003, as compared to $3.3 billion in 2002, premiums levied and collected in 2004 amounted to $1.7 million compared to $1.6 million in 2003. At end-2004, the accumulated assets of the Fund stood at $2.9 million compared with $7.2 million in 2003. This material decline resulted from the maturity of the $6.75 million in startup bonds issued in 1999 to finance the pay-out of depositors of the failed Gulf Union Bank (Bahamas) Limited. The bonds, which were taken up by the member institutions, matured in November, 2004.

The timely advent of the DIC has strengthened public confidence in the domestic financial system. Savers are now fully aware of the scheme and making frequent inquiries on how to diversify their deposit placements among banks to achieve maximum coverage. During the year, the Corporation continued its public awareness campaign, participating in the Bahamas Cooperative League Limited strategic planning session which focused on the Potential of Credit Unions in The Bahamas. The League continues to maintain a keen interest in the DIC as a possible model of a safety net structure for participants in credit unions.

INFORMATION TECHNOLOGY

The Bank's reliance on computer information systems for communication and work flow has increased significantly over the last few years. In response, efforts are intensifying to improve the efficiency, reliability and security of the IT infrastructure. In 2004, the Computer Department upgraded its network infrastructure, communications, IBM I-series mainframe computers and security and monitoring systems. These were aimed at bolstering security, providing an automated backup facility, more enhanced and centralized computing administration and increased availability of computing resources.

Significant staffing and financial resources were committed to the implementation of the Real Time Gross Settlement System (RTGS), to affect a seamless interface between the JD Edwards, Bridge Authority Bonds and Bahamas Government Registered Stock systems. Substantial development was also undertaken to ensure that domestic bank participants of the RTGS were delivered user friendly systems, with real time access to information on deposit accounts and documentation of assets lodged with the Central Bank to support their operations within the system. All summary reporting requirements for participants, including management information needs, are provided by the system.

The Department continued to make enhancements and modifications to existing information systems. New developments in the Banking Department's Currency System facilitated the display and printing of ledger pages. Work in the Lotus Notes environment further automated several Human Resources Department forms and staff benefit processes. The Research Department benefited from additional developments in the FAME database environment, to facilitate the external reporting requirements of the IMF and Bank for International Settlements, and the financial sector survey database which was previously maintained within the AS/400 systems.

The Department strengthened its Disaster Recovery Strategy, installing redundant systems to ensure full information technology coverage in the event of major disasters. These included Internet redundancy switches, backup email servers and a second mainframe computer.

LEGAL UNIT

The Bank continued to closely follow relevant international initiatives as part of its commitment to implement appropriate standards and policies for the banking sector. The Legal Unit participates in this process by advising the Bank on the effect of international standards on existing policies and procedures and on the required adjustments to achieve compliance with new or revised standards. During 2004, officers in the Legal Unit participated in regional and international meetings which focused, among other things, on standards for combating money laundering and terrorist financing, corporate governance and cross-border information exchange issues. Some of the issues which arose and which have legal implications for The Bahamas are discussed below.

Combating Money Laundering and Terrorist Financing

Following on revisions to the 40 Recommendations on anti-money laundering, issued by the Financial Action Task Force (FATF) in June 2003, the FATF revised the methodology used to assess countries' laws, systems and procedures for combating money laundering and the financing of terrorism. The revisions were necessary as a result of the new focus that the revised Recommendations place on the use of the risk sensitive approach by financial institutions in carrying out due diligence checks on their customers. The IMF has agreed to use the Methodology when conducting their assessment of countries' financial services sectors.

The FATF also reviewed several of the Special Recommendations for combating terrorist financing, relating to charities and non-profit organizations, cash couriers and wire transfers. In October 2004, the FATF Plenary adopted a new Special Recommendation IX on cash couriers. The Bank is preparing recommendations for the Government on the implementation of Special Recommendation VII on wire transfers, in view of the FATF's discussions on amendments to the interpretive note to this recommendation.

On 31 December 2004, a new anti-Terrorism Act became law in The Bahamas. This, among other things, has extended and clarified the definition of "terrorism".

Corporate Governance Issues

The Bank issued its own corporate Governance Guidelines in November 2001 and was one of the first Bank regulators worldwide to do so. The Bank participates in the Caribbean Technical Working Group (CTWG) on Corporate Governance, which is seeking to develop a protocol for corporate governance that can be used throughout the region. The CTGW has developed Corporate Governance Principles which are currently being reviewed by members and will be discussed at the 2nd Pan-Caribbean Roundtable and Caribbean Corporate Governance Forum (CCGF), scheduled for March 2005.

International Co-operation and Information Exchange

The Bank is authorized, under the Central Bank of The Bahamas Act, 2000, to disclose regulatory information to overseas regulatory authorities where this is necessary to enable them to exercise regulatory functions—including the conduct of civil or administrative investigations and proceedings to enforce laws, regulations and rules administered by the authority. In 2004, The Bahamas developed a protocol for cross-border information sharing with securities regulators. The Government consulted with the Central Bank and other financial services regulatory authorities, including the Securities Commission of The Bahamas, in developing this protocol.

The Bank also participated in the discussion on cross-border information sharing issues at the International Monetary Fund's conference on Cross-border Co-operation and Information Exchange, held in Washington in July 2004. The Legal Counsel presented a paper on the law and policy applied by the Bank with respect to international cooperation and information exchange.

INTERNAL AUDIT UNIT

During 2004, activities of the Internal Audit Unit remained focused on ensuring that adequate control procedures were adhered to in the Bank's financial transactions and on heightening awareness of operational risks within the organization. The Unit organized and conducted an Operational Risk seminar that was attended by employees from various departments of the Bank, representatives of two commercial banks, the Registrar of Insurance Companies and the Securities Commission of The Bahamas.

As a part of the continuous monitoring activities, key operational areas reviewed included the Currency Operations and external reserves management activities of the Banking Department, and the reconciliation of major correspondent bank accounts prepared by the Accounts Department. Audits were completed on a review of staff travel expenses, US dollar uncleared effects, staff loans, and sundry debtors. The Unit also examined the major interest receivable accounts for accuracy. To assist in managing and organizing its activities, the Unit acquired the Audit Leverage software during the year.

ADMINISTRATION DEPARTMENT

During 2004, the Administration Department continued to provide a structured framework for the execution of capital works, project administration and the procurement of goods and services. In keeping with its mandate, the Department provided logistical support for a number of local and regional events hosted by the Bank, including the Federal Reserve's Credit Analysis training program for the Bank Supervision Department and the Caribbean Regional Technical Assistance Centre (CARTAC) Plenary Session which took place in The Bahamas during October.

Efforts were ongoing to maintain and upgrade the physical plant of the Bank and its surrounding properties. The most notable capital works project initiated was the undertaking to upgrade the air conditioning system in the Old Wing of the Bank, expected to be completed during the first half of 2005. The Balcony House Museum was also extensively refurbished.

ADMINISTRATION

THE BOARD

The composition of the Board of Directors of the Central Bank was unchanged in 2004. The Board meets monthly, chaired by Governor Julian Francis. Deputy Governor, Wendy Craigg, is also a member of the Board as are external Directors Dr. Pandora Johnson, Vice President, Research, Planning and Development, the College of The Bahamas, and Mr. Carleton William, MBE, a retired businessman.

OVERSEAS MEETINGS AND CONFERENCES

During 2004, Governor Julian Francis traveled overseas for a number of meetings. Among these were the Inter-American Development Bank Board of Directors' Meeting in Lima, Peru, meetings with officials from the Government of the Cayman Islands in Grand Cayman, the United States Securities and Exchange Commission in Washington, D.C. and the Guatemalan Authorities in Guatemala. As is customary, Governor Francis also attended the semi-annual CARICOM Central Bank Governors' Meetings which, during 2004, were held in St. Kitts, the Bank of England and Bank for International Settlements Meetings in the United Kingdom and Switzerland, respectively, and the IMF/World Bank Meetings in Washington, D.C. During January 2004, Governor Francis participated in the Bahamas Financial Services Retreat in Exuma and in December, the Bahamas Financial Services Board's briefing with the international financial community, held in New York.

Deputy Governor Wendy Craigg attended two regional conferences during 2004—the XXXVI Annual Monetary Studies Conference in Trinidad and Tobago, and the Eastern Caribbean and Central Bank's Eighth Annual Development Conference in St. Kitts. The Deputy Governor also attended a seminar marking the 40th anniversary celebration of the Central Bank of Trinidad and Tobago and participated locally in an FTAA Town Meeting in Exuma.

Other officers and members of the Management Team also represented the Central Bank at meetings, conferences and seminars abroad.

STAFF TRAINING, DEVELOPMENT AND RELATIONS

During 2004, the Bank committed significant resources to the automation of document processing for the Human Resources Department, within the Lotus Notes workflow environment. The system has significantly improved the efficiency of processes within the Department and the availability of important human resources metrics. The Bank successfully migrated the Performance Management System to Lotus Notes, and carried out the annual staff performance evaluations and salary review process within the system. Further enhancements to this module are planned for during 2005.

The Bank's commitment to training and development was demonstrated by its sponsorship of over 200 staff attendances at local and international seminars and courses. Enrolment in international training programmes totaled 108, and 100 similar attendances were sponsored locally. In addition to Bank initiated training, at year's end 56 employees were enrolled in self-initiated continuing education programmes, benefiting from tuition and reimbursement subsidies under the Staff Training Incentive Programme. Five employees were enrolled on a full-time basis in programmes at The College of The Bahamas and the University of the West Indies, under in-service scholarship awards granted by the Bank.

At the Annual Long Service Awards Presentation in January, the Bank recognized four employees for twenty years of continuous service and eleven, for ten years of service.

STAFF COMPLEMENT

As at 31 December 2004, the staff complement stood at 240, inclusive of 212 permanent and 19 contractual employees. Sixteen (16) persons were recruited during the year and six (6) resigned their positions. There were also two (2) terminations and two (2) retirements, including the former Human Resources Manager, Mr. W. Lester Bowleg. The Bank was also saddened by the tragic death of an employee.

PUBLIC RELATIONS

The Bank hosted its 21st Annual Art Competition and Exhibition in December 2004. The exhibition attracted broad participation, despite some difficulties experienced by Family Island schools as a result of the active hurricane season.

ACKNOWLEDGEMENT

The Board of Directors extends its sincere appreciation to all Bank staff for their continuous dedicated service during the past year.

MANAGEMENT'S REPORT

The Central Bank of The Bahamas' Financial Statements for the year ended December 31, 2004, along with comparative figures for 2002 are shown on pages 51 to 70.

Total assets of the Bank rose by $222.2 million (35.3%), mainly attributed to the $183.5 million (37.9%) expansion in external assets to $667.8 million. Foreign currency deposits were higher by $127.4 million (69.3%) at $311.1 million and marketable securities grew by $54.8 million (19.1%) to $342.1 million. "Other Assets" increased by $38.1 million (28.7%) to $170.7 million, and consisted of growth in holdings of Bahamas Government Registered Stocks (79.3%), loans to Government agencies (19.3%) and interest, receivables and other accounts (19.6%).

The Bank's total liabilities rose by $222.2 million (35.3%), concentrated in a $220.6 million (42.5%) rise in demand obligations to $739.3 million. Deposits held for banks rose strongly by $139.2 million (56.9%) to $383.7 million and balances for the Bahamas Government and its agencies, by $67.4 million (240.7%) to $95.3 million. Currency in circulation also advanced by $15.4 million (6.4%) to $255.3 million.

As a result of increased yields on foreign currency deposits, operating income during 2004 rose by $1.7 million (7.4%) to $25.1 million. With expenses increased by $1.8 million (8.2%) to $24.2 million, profits from operations were lower by $0.1 million (10.8%) at $0.9 million.

THE CENTRAL BANK OF THE BAHAMAS

FINANCIAL STATEMENTS

31 DECEMBER 2004

BDO Mann Judd
P O Box N 10144
Nassau, Bahamas

Pannell Kerr Forster
P O Box N 8335
Nassau, Bahamas

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

We have audited the accompanying balance sheet of The Central Bank of The Bahamas as at 31 December 2004 and the related statements of profit, changes in capital and reserves and cash flows for the year then ended. These financial statements are the responsibility of the management of The Central Bank of The Bahamas. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly in all material respects, the financial position of The Central Bank of The Bahamas as at 31 December 2004 and the results of its operations, changes in capital and reserves, and cash flows for the year then ended, in accordance with International Financial Reporting Standards, and in all material respects, comply with The Central Bank of The Bahamas Act, 2000.

B D O Mann Judd

Pannell Kerr Forster

Chartered Accountants
Nassau, Bahamas
14 April, 2005

The Central Bank of The Bahamas

Balance Sheet as at 31 December, 2004

(Expressed in Bahamian Dollars)

	Notes	2004 $	2003 $
ASSETS			
FIXED ASSETS	4	12,839,331	12,236,321
EXTERNAL ASSETS	5		
Foreign currency deposits		311,069,071	183,720,002
Marketable securities issued or guaranteed by foreign governments	6	342,149,332	287,360,250
Accrued interest receivable on foreign currency		4,852,240	3,945,184
International Monetary Fund	7		
Bahamas reserve tranche		9,722,870	9,281,646
Special drawing rights		29,684	16,941
		667,823,197	484,324,023
OTHER ASSETS			
Bahamas Mortgage Corporation bonds	8	300,000	300,000
Advances to the Bahamas Government	9	71,018,608	71,018,608
Bahamas Government registered stocks	10	78,516,600	43,781,600
Loans to Bahamas Government agency	11	7,575,000	6,350,000
The Bridge Authority bonds	12	688,000	597,000
Accrued interest, receivables and other accounts		12,582,601	10,524,808
		170,680,809	132,572,016
		$851,343,337	$629,132,360

The notes on pages 59 to 70 form an integral part of these financial statements.

The Central Bank of The Bahamas

Balance Sheet as at 31 December, 2004

(Expressed in Bahamian Dollars)

	Notes	2004 $	2003 $
LIABILITIES, CAPITAL AND RESERVES			
DEMAND LIABILITIES			
Notes in circulation		241,240,744	226,708,766
Coins in circulation		14,039,578	13,199,008
Deposits by commercial banks	13	383,675,086	244,499,134
Deposits by The Bahamas Government and Bahamas Government agencies		95,319,083	27,973,814
Deposits by international agencies	14	755,624	967,167
Accrued interest, payables and other accounts		3,314,052	4,409,548
Provision for payment into the Consolidated Fund	16	1,000,000	1,000,000
		739,344,167	518,757,437
OTHER LIABILITIES			
International Monetary Fund allocation of special drawing rights	15	15,887,264	15,201,453
CAPITAL AND RESERVES			
Authorised and fully paid capital		3,000,000	3,000,000
Exchange equalisation account	16	(237,893)	1,043
Contingency reserve	16	750,000	750,000
Other reserves	16	13,758,811	13,758,811
General reserves	16	78,840,988	77,663,616
		96,111,906	95,173,470
		$ 851,343,337	$ 629,132,360

The statements were approved by the board of directors and authorised for issue on 14 April, 2005 and are signed on its behalf by:

Governor

Director

The notes on pages 59 to 70 form an integral part of these financial statements.

The Central Bank of The Bahamas

Statement of Profit for the year ended 31 December, 2004

(Expressed in Bahamian Dollars)

	Notes	2004 $	2003 $
INCOME	17	25,135,708	23,414,680
EXPENSES	18	24,197,272	22,362,946
NET PROFIT FOR THE YEAR		$938,436	$1,051,734

The notes on pages 59 to 70 form an integral part of these financial statements.

The Central Bank of The Bahamas

Statement of Changes in Capital and Reserves for the year ended 31 December, 2004

(Expressed in Bahamian Dollars)

	Authorised and fully paid capital $	Exchange equalisation account $	Contingency reserve $	Other reserves $	General reserves $	Total $
Balance at 1 January 2003	3,000,000	338,969	750,000	19,834,495	71,198,272	95,121,736
Net profit for the year	–	–	–	–	1,051,734	1,051,734
Transfer of unrealised exchange losses	–	(337,926)	–	–	337,926	–
Transfer from other reserves to general reserves	–	–	–	(6,075,684)	6,075,684	–
Proposed transfer to Consolidated Fund	–	–	–	–	(1,000,000)	(1,000,000)
Balance at 31 December 2003	3,000,000	1,043	750,000	13,758,811	77,663,616	95,173,470
Net profit for the year	–	–	–	–	938,436	938,436
Transfer of unrealised exchange losses	–	(238,936)	–	–	238,936	–
Balance at 31 December 2004	$3,000,000	$(237,893)	$750,000	$13,758,811	$78,840,988	$96,111,906

The notes on pages 59 to 70 form an integral part of these financial statements.

The Central Bank of The Bahamas

Statement of Cash Flows for the year ended 31 December, 2004

(Expressed in Bahamian Dollars)

	2004 $	2003 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	938,436	1,051,734
Adjustment for items not involving the movement of cash:		
Amortisation of premiums on marketable securities	2,710,918	3,287,822
Depreciation	1,350,030	1,042,934
Interest income	(23,829,552)	(22,006,577)
Interest expense	251,496	240,461
Net cash used in operating activities before changes in operating assets and liabilities	(18,578,672)	(16,383,626)
(Increase)/decrease in operating assets:		
International Monetary Fund – Special Drawing Rights	231,844	580,788
Receivables and other accounts	(892,931)	(1,088,157)
(Decrease)/increase in operating liabilities:		
Notes in circulation	14,531,978	18,147,447
Coins in circulation	840,570	492,332
Deposits by commercial banks	139,175,952	14,286,945
Deposits by The Bahamas Government and Bahamas Government agencies	67,345,269	8,477,196
Deposits by international agencies	(211,543)	367,717
Payables and other accounts	(1,095,496)	1,330,654
Net cash provided by operating activities	201,346,971	26,211,296

The notes on pages 59 to 70 form an integral part of these financial statements.

The Central Bank of The Bahamas

Statement of Cash Flows for the year ended 31 December, 2004

(Expressed in Bahamian Dollars)

	2004 $	2003 $
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of marketable securities	(90,000,000)	(106,500,000)
Proceeds from maturities of marketable securities	32,500,000	62,000,000
Premium paid on marketable securities	–	(11,727,654)
Purchases of fixed assets	(1,955,885)	(608,921)
Proceeds from sale of fixed assets	2,845	76,863
Purchases and rediscounts of Bahamas Government treasury bills	–	(57,032,706)
Proceeds from sales and maturities of Bahamas Government treasury bills	–	129,059,445
Advances to Bahamas Government	–	(34,000,000)
Proceeds from Bahamas Government	–	34,768,292
Purchase of The Bridge Authority bonds	(91,000)	(28,000)
Purchases of Bahamas Government registered stocks	(59,026,200)	(22,145,000)
Proceeds from sales and maturities of Bahamas Government registered stocks	24,291,200	16,999,400
Loans to Bahamas Government Agency	(1,500,000)	–
Repayments of loan by Bahamas Government agency	275,000	400,000
Interest received	21,782,284	23,158,707
Net cash (used)/provided by investing activities	(73,721,756)	34,420,426
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment to the Consolidated Fund	–	(3,000,000)
Interest paid	(251,496)	(240,461)
Net cash used by financing activities	(251,496)	(3,240,461)
Net increase in cash and cash equivalents	127,373,719	57,391,261
Cash and cash equivalents at beginning of the year	183,757,232	126,365,971
Cash and cash equivalents at end of the year	$311,130,951	$183,757,232
Cash and cash equivalents are comprised of the following:		
Foreign currency deposits	311,069,071	183,720,002
Cash on hand (included in accrued interest, receivables and other accounts)	61,880	37,230
	$311,130,951	$183,757,232

The notes on pages 59 to 70 form an integral part of these financial statements.

1. INCORPORATION AND ACTIVITIES

The Central Bank of The Bahamas (the Bank) was established under The Central Bank of The Bahamas Act Chapter 321, and was continued under The Central Bank of The Bahamas Act, 2000 (the Act). Its main place of business is located at Frederick Street, Nassau, Bahamas. The Bank's principal business is the provision of Central Banking facilities for The Commonwealth of The Bahamas. In accordance with the Act it is the duty of the Bank to promote and maintain monetary stability, credit and balance of payments conditions conducive to the orderly development of the Bahamian economy.

2. BASIS OF PREPARATION

The accompanying financial statements have been prepared on a going concern basis and in accordance with International Financial Reporting Standards (IFRS). The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the year. Actual results can differ from those estimates.

3. ACCOUNTING POLICIES

Significant accounting policies used in the preparation of these financial statements are noted below.

Revenue recognition

Revenues are recognised under the accruals concept.

Foreign currencies

Transactions in currencies other than Bahamian Dollars are converted at the rates of exchange ruling at the time of the transactions. Balances in currencies other than Bahamian Dollars at the balance sheet date are converted at the closing rate of exchange prevailing at the balance sheet date.

The net change in the Bank's assets and liabilities arising from movements in currency exchange rate is included in the statement of profit and, in accordance with Sections 32(2)(a) and 32(2)(b) of the Act, the unrealised portion is transferred to an exchange equalisation account.

Fixed assets

Fixed assets are recorded at cost less accumulated depreciation. Depreciation is provided in equal annual installments so as to write off the cost of assets, other than land, over their estimated useful lives. The following rates are used:

Buildings & renovations	2% p.a.
Office equipment	20% or 33% p.a.
Computer software	33% or 50% p.a.
Office furniture & fittings	20% p.a.
Other fixed assets	20% or 33% p.a.

3. ACCOUNTING POLICIES (cont.)

Marketable securities issued or guaranteed by foreign governments
Marketable securities issued or guaranteed by foreign governments are classified as held-to-maturity investments, and are stated at amortised cost, using the effective interest rate method. Such investments are subject to review for impairments.

Bahamas Mortgage Corporation bonds
Bahamas Mortgage Corporation bonds are classified as available-for-sale investments and are stated at fair value.

Advances to the Bahamas Government
The advances are classified as loans and receivables originated by the enterprise and not held for trading. These loans, which are payable on demand, are stated at cost. These loans are subject to review for impairment.

Bahamas Government registered stocks
Bahamas Government registered stocks are classified as available-for-sale investments and are stated at fair value.

Loans to Bahamas Government Agency
The loans are classified as loans and receivables originated by the enterprise and not held for trading. These loans, which have a fixed maturity period, are measured at amortised cost, using the effective interest rate method. These loans are subject to review for impairment.

The Bridge Authority bonds
The Bridge Authority bonds are classified as available-for-sale investments and are stated at fair value.

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

Retirement benefit costs
The Bank operates a defined benefit contributory pension plan covering substantially all full-time employees. The cost of providing such benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses which exceed 10% of the greater of the present value of the Bank's pension obligations and the fair value of the plan's assets are amortised over the expected average remaining working lives of the participating employees. Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the amended benefits become vested.

3. ACCOUNTING POLICIES (cont.)

Retirement benefit costs (cont.)

The amount recognised in the balance sheet represents the present value of the defined benefit obligation as adjusted for the unrecognised actuarial gains and losses and unrecognised past service costs, and reduced by the fair value of plan assets. Any asset arising as a result of this calculation is limited to the unrecognised actuarial losses and past service cost plus the present value of available refunds and reductions in future contributions to the plan.

Fiduciary items

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

4. FIXED ASSETS

	Land $	Buildings & renovations $	Office equipment $	Computer software $	Office furniture & fittings $	Other fixed assets $	Total $
COST							
1 January 2004	2,452,938	11,595,396	5,208,512	4,917,407	2,701,797	424,098	27,300,148
Additions	–	21,001	699,443	1,026,984	118,149	90,308	1,955,885
Disposals	–	–	(50,161)	–	(23,529)	(27,536)	(101,226)
Transfer	–	(66,783)	–	12,208	54,575	–	–
31 December 2004	2,452,938	11,549,614	5,857,794	5,956,599	2,850,992	486,870	29,154,807
DEPRECIATION							
1 January 2004	–	3,345,902	4,469,790	4,607,448	2,253,834	386,853	15,063,827
Charge for the year	–	247,681	430,464	453,005	178,695	40,185	1,350,030
Disposals	–	–	(47,316)	–	(23,529)	(27,536)	(98,381)
31 December 2004	–	3,593,583	4,852,938	5,060,453	2,409,000	399,502	16,315,476
NET BOOK VALUE							
31 December 2004	$2,452,938	$7,956,031	$1,004,856	$896,146	$441,992	$87,368	$12,839,331
31 December 2003	$2,452,938	$8,249,494	$738,722	$309,959	$447,963	$37,245	$12,236,321

Buildings and renovations include work in progress totalling $Nil(2003: $66,783) which is not depreciated.

5. EXTERNAL ASSETS

External assets comprise of those assets defined as such by Section 18(1) of the Act. The Act also requires that the value of external assets shall not at any time be less than 50% of the value of the aggregate of the notes and coins in circulation and other demand liabilities of the Bank. At the year end, external assets represented approximately 90.33% (2003: 93.36%) of such liabilities.

6. MARKETABLE SECURITIES ISSUED OR GUARANTEED BY FOREIGN GOVERNMENTS

Section 18(1) of the Act requires that marketable securities issued or guaranteed by foreign governments, which mature beyond 5 years, shall at no time constitute more than 30% in value of the Bank's external assets. At 31 December 2004, marketable securities held by the Bank, which mature after 5 years, constituted 3.24% (2003: 11.61%) of the Bank's external assets.

	2004	2003
	$	$
Within 60 days	2,049,038	15,000,110
60 days to 1 year	25,724,933	18,035,182
1 to 5 years	292,749,043	198,136,728
After 5 years	21,626,318	56,188,230
	$342,149,332	$287,360,250

Market value of these securities at the balance sheet date was $ 340,649,322 (2003: $290,155,535). These securities bear interest at rates varying between 2.62% and 7.50% (2003: 4.37% and 7.50%)

7. INTERNATIONAL MONETARY FUND

Bahamas Reserve Tranche

The International Monetary Fund (IMF) reserve tranche represents the amount by which the Bahamas quota of Special Drawing Rights (SDR) with the IMF exceeds subscription payments as noted below:

	2004		2003	
	SDR (millions)	$	SDR (millions)	$
Quota	130.3	202,357,454	130.3	193,622,495
Subscription payments in promissory notes	(119.2)	(185,121,392)	(119.0)	(176,777,660)
Subscription payments in currency	(4.8)	(7,513,192)	(5.1)	(7,563,189)
Reserve tranche	SDR6.3million	$9,722,870	SDR6.2million	$9,281,646

The reserve tranche was purchased from The Government of The Bahamas in 1976.

7. INTERNATIONAL MONETARY FUND (cont.)

Bahamas Reserve Tranche (cont.)

Subsequent to that purchase, the Bank has funded 25% of each increase in the IMF subscriptions of The Bahamas by issuing interest-free promissory notes which are payable on demand. In the opinion of the Directors it is not probable that an outflow of resources employing economic benefits will be required to settle these promissory notes, which total $72,746,915 (2003: $46,275,821). Consequently, this amount is regarded as a contingent liability and is not recognised in the Bank's balance sheet.

Special Drawing Rights

This amount represents SDR holdings with the IMF, is repayable on demand and bears interest at rates varying from 1.57% to 2.24% (2003: 1.51% to 1.88%).

8. BAHAMAS MORTGAGE CORPORATION BONDS

These bonds bear interest at a rate of 2.00% (2003: 2.00%) per annum below the Prime rate and mature as noted below:

	2004	2003
Between 2-3 years	$300,000	$300,000

9. ADVANCES TO THE BAHAMAS GOVERNMENT

Sections 28(3) and 28(4) of the Act require that advances to the Government, which may be outstanding at any one, time shall not exceed 10% of either the annual average ordinary revenue of the Government over the three preceding years for which the accounts have been laid before Parliament or the estimated ordinary revenue of the Government for the year, whichever is the less.

At the balance sheet date, advances to the Government approximated 9.22 % (2003: 10.00%) of the lesser of such revenues. Of those advances $34,000,000 (2003: $34,000,000) bear interest at rates of 1.09% (2003: 1.09%). The remaining advances were interest free during both 2004 and 2003. The advances are repayable on demand.

10. BAHAMAS GOVERNMENT REGISTERED STOCKS

Section 29(1)(c) of the Act requires that the total amount of Government issued or guaranteed securities held at any time by the Bank which mature beyond five years after their date of issue shall not exceed 20% of the demand liabilities of the Bank. At the balance sheet date, Bahamas Government registered stocks held by the Bank which mature beyond five years after their date of issue was approximately 10.62% (2003: 8.43%) of such liabilities.

The Act further requires that any holdings of Government issued or guaranteed securities should not have maturities extending beyond 20 years from the date of their acquisition. The Bank held no such securities maturing beyond 20 years at either 31 December 2004 or 2003.

10. BAHAMAS GOVERNMENT REGISTERED STOCKS (cont.)

Bahamas Government Registered Stocks bear interest at rates ranging between 6.12% and 9.50% (2003: 6.28% and 9.50%) and mature as noted below:

	2004 $	2003 $
60 days to 1 year	16,000	900
1 to 5 years	600	40,500
More than 5 years	78,500,000	43,740,200
	$78,516,600	$43,781,600

11. LOANS TO BAHAMAS GOVERNMENT AGENCY

This balance is comprised of three loan facilities made available to a Government agency in accordance with Section 29(l)(f) of the Act.

The advances bear interest at 2.00% (2003: 2.00%) and mature as noted below:

	2004 $	2003 $
More than 5 years	7,575,000	6,350,000
	$7,575,000	$6,350,000

12. THE BRIDGE AUTHORITY BONDS

These bonds bear interest at rates ranging from 1.00% to 1.50% (2003: 1.00% to 1.25%) per annum over the Prime rate, and mature as noted below:

	2004 $	2003 $
More than 5 years	$688,000	$597,000

13. DEPOSITS BY COMMERCIAL BANKS

Deposits by commercial banks consist of current account balances deposited as statutory reserves in accordance with Section 19 of the Act.

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

14. DEPOSITS BY INTERNATIONAL AGENCIES

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

15. INTERNATIONAL MONETARY FUND ALLOCATION OF SPECIAL DRAWING RIGHTS

In accordance with a resolution of The Board of Governors of the IMF, effective 11 December 1978, The Bahamas became a participant in the Special Drawing Rights Department of the IMF, receiving a total allocation of SDR 10,230,000 between 1979 and 1981. The Special Drawing Rights allocation bore interest during the year at rates varying between 1.57% and 2.24% (2003: 1.51% and 1.88%) and is repayable on demand.

16. RESERVES

a Exchange equalisation account – Under the terms of Sections 32(2)(a) and 32(2)(b) of the Act, this account represents the net unrealised profits or losses arising from the revaluation of foreign currency assets and liabilities of the Bank at the balance sheet date.

b Contingency reserve – This reserve is maintained in accordance with the provisions of Section 7(1) of the Act.

c Other reserves – In accordance with the provisions of Section 7(1) of the Act, the Bank has determined that will be no transfer from other reserves to general reserves. In 2003 an amount of $6,075,684 was transferred from other reserves to general reserves.

d General reserves – Section 7(2) of the Act requires that at the end of any year where the amount in the general reserves exceed twice the authorised capital of the Bank or 15% of its demand liabilities, whichever is greater, the excess shall be paid to the Consolidated Fund unless the Minister of Finance determines otherwise.

The balance of the general reserves at the year end amounted to $78,840,988 (2003: $77,663,616) equivalent to 15% (2003: 15%) of demand liabilities prior to a provision of $nil (2003: $1,000,000) to be paid into the Consolidated Fund.

17. INCOME

	2004 $	2003 $
Interest income	23,829,552	22,006,577
Other operating income	1,306,156	1,408,103
	$25,135,708	$23,414,680

18. EXPENSES

	2004 $	2003 $
General & administrative expenses	12,045,425	11,198,290
Staff costs	10,550,321	9,881,261
Depreciation expense	1,350,030	1,042,934
Interest expense	251,496	240,461
	$24,197,272	$22,362,946

19. THE DEPOSIT INSURANCE CORPORATION

In accordance with Section 5(1) of the Protection of Depositors Act, 1999, the Bank has made an initial capital contribution of $500,000 representing 100% of the paid-up portion of the capital of The Deposit Insurance Corporation. This Corporation was established to manage The Deposit Insurance Fund, which was established to protect funds deposited with member institutions.

In the opinion of the Directors, the Bank does not have the power to govern the financial and operating policies of The Deposit Insurance Corporation so as to attain benefits from its activities. Consequently, The Deposit Insurance Corporation is not treated as a subsidiary in these financial statements.

Additionally, the Directors do not consider that the investment in The Deposit Insurance Corporation will be recoverable, and consequently the Bank has made a full provision against this investment.

20. COMMITMENTS

The Bank is committed to rent office space under an operating lease. The Bank is committed to the following future payments under the lease agreement:

Year	$
2005	166,469
2006	249,704
2007	249,704
2008	261,595
2009	267,540
2010	89,180

21. CONCENTRATIONS OF ASSETS AND LIABILITIES

The Bank has the following concentrations of assets and liabilities.

EXTERNAL ASSETS	2004 %	2003 %
Geographic Region		
North America	87.62	92.11
Europe	9.96	4.84
Other	2.42	3.05
Industry		
Financial Sector	100.00	100.00

OTHER ASSETS	2004 %	2003 %
Geographic Region		
Bahamas	100.00	100.00
Industry		
Government Sector	100.00	100.00

DEMAND LIABILITIES	2004 %	2003 %
Geographic Region		
Bahamas	99.84	99.82
Other	0.16	0.18
Industry		
Financial Sector	100.00	100.00

OTHER LIABILITIES	2004 %	2003 %
Geographic Region		
International Agencies	100.00	100.00
Industry		
Financial Sector	100.00	100.00

22. CONTIGENT LIABILITIES

The Bank is party to a number of asserted and unasserted claims in the normal course of business, including a number from a former licensee, which are at varying stages of the judicial process. The Bank is vigorously defending all such claims and is of the opinion that the outcome, which cannot presently be determined, will not adversely affect its operations.

23. OFF BALANCE SHEET ITEMS

The Bank has off balance sheet items totalling $38,584,791 (2003: $47,059,741). These items, which are held in a fiduciary capacity, comprise of offsetting assets consisting of bank accounts, and liabilities consisting of dormant retail customer accounts of $32,908,959 (2003: $30,003,155) and a sinking fund of $5,675,832 (2003: $17,056,586).

Certain dormant retail customer accounts, which are received in foreign currencies, are invested in the same currency. These currencies are converted to Bahamian Dollars at the rate of exchange prevailing at the date of accepting their funds, and listed as a memorandum account in the trial balance. Foreign currency deposits are repaid, by liquidating investments in the same currency, which does not involve currency conversion.

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Directors consider that with the exception of marketable securities issued or guaranteed by foreign Governments, all of the Bank's financial assets and liabilities are carried at amounts approximating fair value. The market value of those marketable securities is as stated in note 6.

25. MATURITIES OF FINANCIAL INSTRUMENTS

Except as otherwise stated in notes 6 to 15, the Bank's significant financial assets and liabilities mature within one year of the balance sheet date.

26. INTEREST RATE RISK

Except as otherwise stated in notes 6 to 15, the Bank's financial assets and liabilities do not carry any exposure to interest rate risk.

27. CREDIT RISK

The Directors do not consider that the Bank is exposed to any significant credit risk because its financial assets consist primarily of cash and securities issued or guaranteed by either foreign Governments or The Bahamas Government.

28. DEFINED BENEFIT CONTRIBUTORY PENSION PLAN

The Bank operates a defined benefit contributory pension plan for the majority of its employees.

The amount recognised as an asset in the Balance Sheet in respect of the Bank's defined benefit contributory pension plan is as follows:

	2004 $	2003 $
Present value of funded obligations	(27,556,688)	(25,074,880)
Fair value of plan assets	30,540,884	28,443,876
	2,984,196	3,368,996
Unrecognised actuarial gains	(39,118)	(366,962)
Net assets calculated in accordance with paragraph 54 of International Accounting Standard 19	$2,945,078	$3,002,034

The expense recognised in the statement of profit in respect of the Bank's defined benefit pension plan is as follows:

	2004 $	2003 $
Current service cost	999,778	968,783
Interest cost	1,585,581	1,469,771
Expected return on plan assets	(1,995,345)	(1,801,176)
Actuarial adjustment	–	9,516
	$590,014	$646,894

28. DEFINED BENEFIT CONTRIBUTORY PENSION PLAN (cont.)

Movements in the net asset recorded in the balance sheet are as follows:

	2004 $	2003 $
Net asset at beginning of the year	3,002,034	3,060,449
Net expense recognised in the statement of profit	(590,014)	(646,894)
Employer contributions	533,058	588,479
Net asset at end of the year	$2,945,078	$3,002,034

Principal actuarial assumptions used at the balance sheet date are as follows:

	2004	2003
Discount rate	6.25%	6.25%
Expected return on plan assets	7.00%	6.75%
Expected rate of salary increase at 18	9.00%	9.00%
Expected rate of salary increase at 59	2.00%	4.90%
Average expected remaining working lives of employees (years)	20.00	17.00

The actual return on plan assets during the year was $1,974,895 (2003: $1,976,752).