The Central Bank of The Bahamas

Annual Report & Statement of Accounts

For The Year Ended December 31, 2002

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

Contents

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

DIRECTORS AND SENIOR OFFICIALS

At December 31, 2002

BOARD OF DIRECTORS

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

Senior Officials

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

J. Kevin Higgins – *Economic Advisor*
Richard G. Ellis – *Inspector of Banks and Trust Companies*
Rochelle A. Deleveaux – *Legal Counsel*

Henderson Wilson – *Senior Manager, Accounts*

Wilton Bowleg – *Manager, Human Resources*
Gerard Horton – *Manager, Exchange Control*
Cassandra Nottage – *Manager, Bank Supervision*
Bert A. Sherman – *Manager, Computer*
Cecile M. Sherman – *Manager, Banking*

John A. Rolle – *Deputy Manager, Research*

April 20, 2003

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 2002. Included with this report is the Annual Statement of Accounts of The Bank for the year.

Respectfully yours,

Julian W. Francis
Governor

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

ECONOMIC AND MONETARY REVIEW

Domestic Economic Developments

Domestic economic trends stabilized during 2002, as the economy recovered ground lost following the September 11 setback in the tourism industry and local mortgage financing continued to uphold domestic housing expenditure in the construction sector (see Table 1). However, activity in both tourism and foreign investment remained subdued in comparison to 2000 levels, given the pervading uncertainty and caution in the global climate for travel and investments. Although the public sector finances recorded a reduction in the comparative deficit for the first half of FY2002/03, financing requirements were still elevated over the calendar year, owing to supplementary needs arising during the second half of the preceding fiscal year, when revenue fell short of projections. In the financial sector, although money supply growth trailed credit expansion, sizeable inflows associated with public sector foreign currency borrowing provided a significant boost to liquidity, which accommodated some softening in average interest rates. Despite higher energy costs, domestic inflation stabilized, and the external current account deficit narrowed significantly, reflecting a combination of reduced net imports and improved net tourism inflows. Both increased net private foreign investments and short-term inflows through the banking sector supported a strong upturn in the surplus on the capital and financial account.

Benefiting from net public sector foreign currency borrowing and tight domestic credit conditions, bank liquidity rose to $88.9 million from $56.5 million at end-December 2002, representing 2.4% of total Bahamian dollar deposit liabilities from a reduced 1.6% in 2001. Average monthly liquidity was more than doubled at $118.1 million, and the broader excess liquid assets strengthened to a monthly average of $115.2 million from $47.0 million in 2001. Buoyancy in liquidity influenced some easing in commercial banks' weighted average deposit rate, by 13 basis points to 4.11%, while greater concentration on residential mortgages contributed to a 14-basis point drop in the weighted average loan rate to 11.33%. The average interest rate spread, therefore, stabilized at 7.22%. The average 90-day Treasury bill rate firmed by 55 basis points to 2.50% during 2002, but official rates—commercial banks' Prime and the Central Bank's Discount Rate—were unchanged at 6.00% and 5.75%, respectively.

Reflecting weaker foreign currency inflows from tourism and foreign investments relative to their

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

	1999	2000	2001	2002
Occupied Hotel Room Nights	13.3	5.3	(3.7)	0.7
Total Arrivals	9.0	15.2	(0.5)	5.2
Construction Starts - Value	(0.6)	19.0	(8.0)	18.6*
Construction Completions - Value	(7.4)	(0.1)	8.0	(2.7)*
Electricity Generation (mwh)	5.1	6.9	3.9	5.6
Water Consumption (gals.)	(0.1)	1.2	(1.4)	6.3
Retail Price Index	1.3	1.6	2.0	2.0

SOURCE: The Central Bank of The Bahamas
* Year-to-date June

elevated levels at the end of the last decade, money supply (M3) growth slowed for the third year in a row, to 3.2% from 4.7% in 2001 and 9.3% in 2000, placing the overall stock at $3,836.2 million. A tapering off in fixed deposit growth to 2.3% from 8.7% in 2001, outweighed the combined stronger savings deposit gains of 4.3% and the 6.4% rebound in demand balances. The increase in currency in active circulation also slackened to 0.8%.

Domestic credit expansion abated to 5.6% from 9.5% in 2001 and 11.7% in 2000, resulting in an outstanding stock of $4,940.4 million. In line with the public sector's heightened budgetary financing requirements, foreign currency credit was increased to 62.7% of the total, from an 11.7% share in 2001, while net private sector lending shifted almost exclusively towards residential mortgages. Commercial banks' net claims on Government advanced by only 9.2% as opposed to 13.6% in 2001, owing to a sizeable net repayment on local currency credit, which was facilitated through the expansion in net foreign currency liabilities. Foreign currency borrowing also elevated the banking sector's claims on the rest of the public sector, by 49.9% relative to last year's 4.7% advance. Although private sector credit growth slackened to $167.5 million (4.3%) from $283.5 million (7.8%) in 2000, it included accelerated lending for housing (mainly mortgages) of $152.1 million (15.2%), leaving minimal resources directed towards other activities. In particular, consumer credit contracted by 0.3% in contrast to a 3.3% increase in 2001.

Preliminary indications are that the Government's budget deficit for the first six months of FY2002/03 narrowed to $37.2 million from $68.8 million in the comparable period of FY2001/02. Total revenues rallied by 6.9% to $445.4 million from a 8.2% downturn in 2001, as tax collections rebounded by 6.2%, led by recovered import duties and tourism-related taxes. Total expenditure contracted by 0.6% to $482.6 million, with net lending to the public corporations more than halved to $16.3 million and capital expenditures curtailed by 10.2% to $35.2 million. These more than absorbed the 5.8% increase in recurrent spending to $431.2 million, partly associated with a hike in the wage bill and elevated outlays on tourism promotion. Budgetary financing during the first half of the fiscal year included net Bahamian dollar borrowing of $106.3 million and $22.6 million in foreign currency loans. When added to net financing from the second half of FY2001/02, the Direct Charge on Government registered a 12.6% rise to $1,805.3 million at end-2002. After an incremental 1.1% increase in Government guaranteed borrowings of the public corporations, to $368.1 million, the National Debt grew by some 10.5% to $2,173.4 million.

Rebounded stopover pricing and sustained growth in cruise visitor volumes supported some revival in tourism output during 2002, particularly from the September 11, 2001 setback. However, the industry remained weak relative to 2000, owing to a continuation of soft demand conditions in the global travel industry. Total visitor arrivals recovered by 5.2% to a record 4.4 million in 2002, following a mild contraction of 0.5% in 2001 and a 15.2% expansion in 2000. A stabilized performance of the stopover market was underscored by the tapered 1.8% reduction in air arrivals to 1.4 million, in relation to the 3.6% fall-off in 2001. Sea arrivals, inclusive of cruise passengers, rose by 8.9% to 3.0 million, but with an exaggerated gain posted in the Family Islands (54.7%), where a greater number of cruise lines made their first port calls to clear immigration. Consequently, the immigration passenger count contracted for both New Providence (5.8%) and Grand Bahama (3.8%). Growth in stopover expenditure was evidenced from the 6.2% increase in estimated hotel room revenues throughout The Bahamas, which overturned a 4.5% reduction in 2001. New Providence properties accounted for all of the 5.5% appreciation in the average nightly room rate to $155.64, while activity in Grand Bahama supported the 0.7% increase in total room night sales. As the inventory of rooms available for sale was slightly reduced, however, hotel occupancy rates firmed to 62.5% from 60.5% in

2001. The Family Islands experienced weakness in both pricing and room sales, but cruise visitor growth compensated for such loses.

Consumer price inflation, measured by changes in the average Retail Price Index, was unchanged at 2.0% in 2002, despite the counter pressures exerted from the accelerated uptrend in average education costs (12.9%) and the firmer average price increase on furniture & household operations (4.9%). In a strong offset, average price advances were stable to decelerated for the other components in the Index.

In the construction sector, preliminary data for the first six months of 2002 indicate some leveling off in output trends, with increased expenditures on new projects mitigating decreased estimates on investments continuing from 2001. The value of projects started during the first half of the year rose by 18.6% to $116.8 million, including a 1.5% increase in residential investments to $80.9 million and a New Providence-led doubling in commercial valuations to $34.3 million. Estimates for building completions declined by 2.7% to $154.9 million, with boosted upscale residential projects in New Providence more than offset by a significantly reduced commercial contribution, linked to concluded hotel sector redevelopments on Grand Bahama. Meanwhile, planned future investments, signaled from the value of building permits granted during the period, were halved to $254.7 million. Fewer hotel redevelopments on Grand Bahama lowered commercial valuations to $86.1 million from $228.1 million, while the value of residential approvals declined 41.2% to $168.4 million because of a reduction in upscale permits for New Providence.

In other real sector developments, Department of Fisheries data indicate a 29.7% hike in the value of fisheries production to $102.7 million—partly reflecting improved coverage of Family Island activities. The latter, alongside more favourable weather conditions and improved yields, reinforced a rebound in the value of crawfish landings to $92.2 million from $55.6 million last year—which represented almost 90.0% of the value. Scale fish landings, however, decreased marginally in value. For the year, fisheries export earnings also recovered sharply, by 38.9% to $99.5 million, with receipts from crawfish shipments higher by 41.6% at $95.8 million. The average export price for crawfish rose by 16.4% to $15.90 per pound.

On the external account, preliminary estimates suggest a substantial narrowing in the current account deficit, to $188.1 million from $274.0 million in 2001. Slackening imports, amid moderated consumer demand, narrowed the merchandise trade deficit to an estimated $1,035.6 million from $1,111.3 million in 2001, and modestly improved net tourism inflows led a 4.8% widening in the estimated services account surplus to $1,017.7 million in 2002. However, net investment income outflows were up by 21.2% to $212.4 million, mainly because of increased profit repatriation by the banking sector. Net transfer receipts were fairly stable at $42.4 million.

On the capital and financial account, the estimated surplus rose to $417.1 million from $260.2 million in 2001—inclusive of a boost in private foreign direct investment and elevated short-term inflows through the banking system. The public sector recorded a net external debt inflow of $1.9 million compared with a small net repayment of $3.7 million last year, while other foreign currency borrowings through domestic banks pushed short-term inflows higher at $205.4 million from $120.4 million in 2001. Total net private investments strengthened to $234.3 million from $164.7 million, with direct equity investments approximately doubled at $121.6 million, net foreign real estate inflows recovering by 24.8% to $47.7 million, and net loan inflows incrementally higher at $65.0 million.

Fiscal Operations

2001/2002 Performance

Continued weakness in economic activity exerted pressure on the fiscal situation during FY2001/02, with the deficit on the central Government's overall balance deteriorating to $169.5 million from $16.4 million in FY2000/01 (see Table 2). While total expenditures at $1,026.3 million were virtually contained at the budget level, revenue collections were $172.9 million (16.8%) below the established target at $856.8 million, based on slippages in tax collections.

As weak fundamentals in the United States and the international economy asserted a drag on tourism trends and general domestic activity, revenue losses were most significant in the area of taxes on international trade and transactions, which were lowered by 8.4% from the previous fiscal year and some 19.5% below the budgeted target. In both cases, import duties weakened by 7.3% and 20.1%, respectively. The combined intake from tourism-related gaming and hotel occupancy taxes fell to $36.9 million from $40.6 million in FY2000/01, and from a budgeted $44.7 million. Although less significant, similar trends were reflected in other tax categories. Non-tax revenue at $84.7 million exceeded the $77.3 million budgeted, but lagged the $100.5 million receipts for the previous fiscal year, when the intake of fines, forfeits and administrative fees were 34.8% higher.

Recurrent expenditures, at $895.3 million, almost approximated the approved spending level, but were 5.8% in excess of FY2000/01 outlays. Adjustments in implementation schedules held capital expenditures some 4.8% below budget at $103.6 million, although exceeding the previous fiscal year's total by 21.9%. Net lending to public corporations overshot the budget by $6.2 million (29.1%), but were more than one-fourth lower than in FY2000/01. Budgetary financing for the fiscal year consisted of total Bahamian dollar and foreign currency borrowings of $157.7 million and $143.8 million, respectively. Of the latter, $100 million represented drawings under the US$125 million supplementary borrowing approval granted by Parliament in June, to cover accumulated arrears resulting primarily from revenue shortfalls following September 11, 2001. Debt amortization during the fiscal year included $76.4 million on Bahamian dollar obligations and $67.8 million on the foreign currency component.

2002/2003 Budget

In the 2002/03 budget, approved by Parliament in June, the Government reaffirmed its commitment to fiscal prudence and to pursuing policies that would strengthen the Bahamian economy, while giving priority to the improvement of social welfare. Consistent with the economic importance of financial services to The Bahamas, provisions were made for the establishment of the Ministry of Financial Services and Investments, with a mandate to pursue development initiatives in the financial services arena and e-commerce. The importance of ongoing trade liberalization initiatives were underscored by the reorganization of The Ministry of Economic Development into the Ministry of Trade and Industry, with central responsibility for coordinating The Bahamas' negotiations within the World Trade

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

	FY1999/00	FY2000/01	FY2001/02		FY2002/03	
	Actual	Actual	Approved Estimates	Preliminary Estimates	Approved Estimates	Preliminary[1] Estimates
Government Revenue	918,493	957,508	1,029,669	856,838	962,761	445,367
Government Expenditure (i + ii + iii)	956,177	973,957	1,023,899	1,026,334	1,109,302	482,589
i) Recurrent Expenditure	817,393	846,464	893,831	895,267	953,894	431,156
ii) Capital Expenditure	106,686	85,034	108,764	103,572	127,435	35,151
iii) Net Lending	32,098	42,459	21,304	27,495	27,973	16,282
Surplus/(Deficit)	(37,684)	(16,449)	5,770	(169,496)	(146,541)	(37,222)

SOURCE: Ministry of Finance
"Compiled according to the IMF's Government Finance Statistics Format. 1st July - December, 2002"

Organisation (WTO) and the Free Trade Area of the Americas (FTAA).

Instead of new or increased taxes, the Budget outlined new incentives for Family Island Development through the proposed creation of duty free Economic Enterprise Zones in depressed communities. A combination of higher exemption levels and reduced real property tax rates on owner occupied properties was also foreshadowed, along with the elimination of the stamp tax for first-time home buyers. The latter concessions were subsequently approved by Parliament in December, to have effect for an initial period of five years. While efforts to strengthen the tax administration process remained a priority, the Government also announced plans for a comprehensive review of the existing tax system, to align the structure with obligations that The Bahamas might assume under the various trade liberalization initiatives.

Based on expectations of moderate economic growth for FY2002/03, revenue and grants are projected to recover by $105.9 million (12.4%) to $962.8 million—although conservatively scaled back by 6.5% from the FY2001/02 original forecast. By comparison, approved spending––including net lending to public corporations––is expected to advance by a lesser $83.0 million (8.1%) to $1,109.3 million.

Despite planned exemptions and other concessions, tax collections were budgeted to grow by $107.6 million (13.9%) to $879.8 million, primarily linked to anticipated gains in trade and tourism related taxes. In contrast, non-tax receipts, at $77.8 million, were projected to fall short of the 2001/02 intake by $6.9 million (8.1%), mainly due to reduced collections of fines, forfeitures and administrative fees. Capital revenue and grants were estimated at an aggregate $5.2 million, representing a reduction in amounts expected during the previous year.

Compared to FY2001/02 outcome, the recurrent and capital expenditure budgets rose by a combined $82.2 million (8.3%), while the $28.0 million provisioned for net lending was relatively unchanged. Current expenditure was budgeted to exceed the 2001/02 provisional outcome by $58.6 million (6.5%) at $953.9 million which, offset by a more sizeable revenue gain, is expected to reinstate a small recurrent surplus of $3.7 million vis-à-vis a $38.5 million shortfall in FY2001/02. In line with pay increases provided for select groupings of the Civil Service during the fourth quarter of FY2001/02, wages and salaries, which constitute the majority (43.3%) of recurrent outlays, are estimated to increase by 6.7%. Growth of 8.7% was budgeted for purchases of goods and services, which captured a 22.2% share––to partly fund an intensified marketing campaign for tourism. Subsidies and non-interest transfers are anticipated to rise by 5.8% over FY2001/02, mainly due to higher direct assistance to quasi-public entities like the College of The Bahamas and the Public Hospitals Authority. Modestly increased provisions on both an expanded local and foreign currency debt stock placed interest payments 3.3% higher than in FY2001/02.

Approved capital spending of $127.4 million was $21.1 million (20.4%) in excess of the FY2001/02 outlays, with a sizeable portion of the increase related to capital formation—primarily public works projects—which advanced to $89.3 million from $79.7 million. Allocations for the acquisition of assets were almost 50.0% higher at $31.0 million––representing significant growth in procurement of office equipment, furnishings, and transport equipment. Capital transfers to non-financial public enterprises received a more than two-fold hike in provisions at $6.4 million. On a functional basis, education, health, public order and safety and defense also benefited from expanded capital allocations.

The 2002/03 budget envisages an overall funding shortfall of $146.5 million, which would represent a $23.0 million improvement from the $169.5 million deficit for FY2001/02. Planned budgetary financing is expected to include domestic borrowings of $186.2 million and $29.7 million from external sources. When combined with scheduled reductions in bond maturities, debt amortization was halved to $66.9 million, translating into a likely $149.0 million increase in the Direct Charge on Government. Matched against a milder uptrend in the guaranteed debt of the public corporations, the National Debt is expected to register, at the very least, a similar advance by the end of FY2002/03.

First 6 Months of FY2002/2003

Preliminary estimates of budgetary operations for the first six months of the fiscal year revealed a reduction in the overall deficit to $37.2 million from $68.9 million in the corresponding period of FY2001/02, although concentrated in scaled-back assistance to the public corporations. Revenue collections rose broadly by $28.8 million (6.9%) to $445.4 million, representing roughly 46.3% of the budget, while expenditures—including net lending—decreased marginally (0.6%) to $482.6 million, to represent approximately 43.5% of the approved target. In respect of the latter, Government's net lending to public corporations was more than halved to $16.3 million.

On the revenue side, tax collections, which constituted some 91.9% of total receipts, expanded by $23.8 million (6.2%) to $409.2 million, based on the modest turnaround in economic activity. Notably, taxes on international trade and transactions recovered by $13.3 million (5.8%), on account of strengthened import duties and stamp taxes on imports. Tourism related gaming and hotel occupancy taxes were approximately stable at $12.0 million, and departure taxes gained 13.2% to $24.6 million. Business and professional license fees also increased by $5.4 million (47.4%); stamp taxes on financial and other transactions, by $5.0 million (16.0%); and motor vehicle taxes, by $1.1 million (25.6%). With the more timely allocation of receipts among the various revenue categories, the non-disaggregated "other" category, decreased by 10.0% to $54.7 million. Non-tax revenue advanced by $5.0 million (16.1%) to $36.1 million, comprising a three-fold improvement in income from public enterprises and other sources to $16.5 million, which completely offset the $6.6 million (25.9%) decline in collections of fines, forfeitures and administrative fees to $18.9 million.

On the expenditure side, recurrent spending rose by $23.7 million (5.8%) to $431.2 million (92.5% of the total), whereas capital outlays were curtailed by $4.0 million (10.2%) to $35.2 million. Under recurrent outlays, personal emoluments advanced by $13.3 million (7.2%) to $199.4 million, associated with salary adjustments effected towards the end of the previous fiscal year. Purchases of goods and services were higher by $6.6 million (9.4%) at $76.5 million, partly in accommodation of increased tourism promotional activities and property rental agreements. Subsidies and non-interest transfers rose by $6.1 million (6.1%) to $105.7 million, earmarked to subsidized entities like the College of The Bahamas and the Public Hospitals Authority. In contrast, interest payments decreased by $2.3 million (4.4%) to $49.5 million, because of lowered costs on local currency debt obligations.

The contraction in capital expenditure was principally explained by a halving in outlays for the acquisition of assets to $3.5 million, and in investment related to capital formation, of $1.2 million (3.8%) to $30.0 million. These fully offset the increase in capital transfers to public enterprises, mainly aviation, to $1.6 million from $0.4 million.

Budgetary financing in the opening six months of FY2002/03 consisted of net local currency borrowing of $106.3 million and $22.6 million in foreign currency which, when combined with developments in the second half of the preceding fiscal year, resulted in a strengthened calendar year increase in Direct Charge on Government of $202.0 million (12.6%) to $1,805.3 million. Bahamian dollar claims, which rose by $130.8 million (9.1%) to $1,575.5 million, accounted for 87.3% of the total. By creditor composition, the majority of the Bahamian dollar debt was held by public corporations—for a slightly increased share of 39.3%—followed by commercial banks and private and institutional investors, who held relatively stable shares at 25.0% and 24.0%, respectively. The Central Bank, however, experienced a reduction in its share, to 11.6% from 13.2% last year.

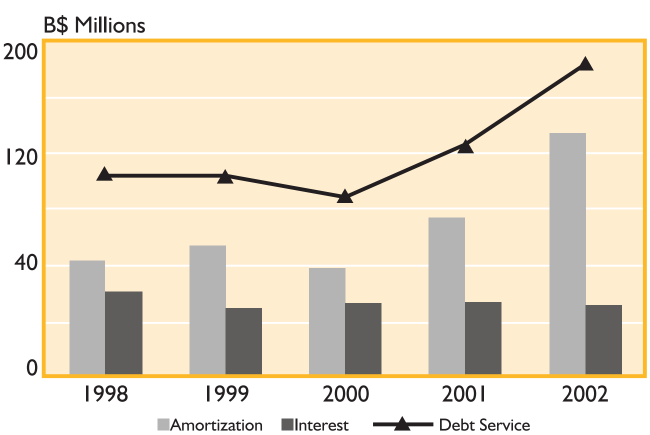
For 2002, commitments by the national airline and under the Education Loan Guarantee Scheme underpinned growth in Government's Contingent Liabilities of $4.0 million (1.1%) to $368.1 million. As a result, the National Debt expanded by an estimated $206.0 million (10.5%), following similar growth to $2,173.4 million in 2001.

Foreign Currency Debt

After contracting by $3.3 million (0.8%) in 2001, the stock of public sector foreign currency debt grew by $124.3 million (31.9%) to a provisional $514.1 million at end-2002 (see Table 3). The Government's component increased by $71.2 million to $229.9 million, for an expanded 44.7% share of the total, with the remaining $284.2 million (55.3%) held by public corporations—a gain of $53.1 million.

By creditor profile, commercial banks held the bulk of the foreign currency debt (48.0%), closely followed by multilateral institutions (47.1%), and with the balance (4.9%) accounted for mainly by

Foreign Currency Debt Service



private institutional investors. The average maturity of the debt was centered near 8 years, with nearly all of the liabilities denominated in US dollars.

Total debt service grew by $29.1 million to $111.8 million, with the favourable interest rate environment reinforcing a 2.8% contraction in interest charges to $25.4 million, while amortization payments were higher by $29.8 million (52.6%) at $86.4 million, including the scheduled $25 million maturity of the US$50 million bond in April. Measured against exports of goods and non-factor services, debt service firmed to 4.1% from 3.1% in 2001, and the Government's debt servicing as a proportion of total revenues was elevated to 8.5%, relative to 2001's more normal 2.9% trend.

Table 3: Public Sector Foreign Currency Debt (B$'000)

	1999p	2000p	2001p	2002p
A. EXTERNAL DEBT	**367.3**	**367.6**	**346.3**	**310.5**
i) Government	105.7	114.8	122.1	99.5
ii) Public Corporations	261.6	252.8	224.2	211.0
Of Which Gov't Guaranteed	232.0	224.4	197.3	186.4
B. INTERNAL FOREIGN CURRENCY DEBT	**36.1**	**24.7**	**43.0**	**202.9**
i) Government	29.8	21.2	36.8	130.4
ii) Public Corporations	6.3	3.5	6.2	72.5
Of Which Gov't Guaranteed	–	–	–	39.7
C. TOTAL FOREIGN CURRENCY DEBT	**403.4**	**392.3**	**389.3**	**513.4**
D. DEBT SERVICE RATIO	**3.0**	**2.3**	**3.1**	**4.1**

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

Real Sector

Tourism

Although mixed, preliminary indicators suggest a moderate recovery in tourism output from the fall-off experienced in the aftermath of the terrorist attacks on the United States. Growth was supported by rebounded pricing gains in the New Providence stopover segment, increased stopover volume for Grand Bahama, and robust cruise activity in the Family Islands. Industry trends, however, were still below their 2000 outcome, owing to soft fundamentals in the United States' economy, the primary visitor market, and depressed global travel demand amid the threat of a war against Iraq.

Following a 0.5% decline in 2001 to 4.2 million visitors, tourist arrivals recovered by 5.2% to 4.4 million in 2002 (see Table 4), placing the total visitor count some 4.7% higher than in 2000. Performance was underpinned by an 8.9% expansion in sea traffic to 3.0 million, building upon 2001's 1.2% gain; whereas air arrivals experienced a further decline of 1.8% to 1.4 million, although moderating the year-earlier 3.6% drop.

Mixed trends were evident across the three major destinations. Arrivals to New Providence contracted by 4.7%, relative to a 1.0% growth in 2001, due mainly to a 5.8% downturn in sea visitors from growth of 4.6% in 2001, and the associated diversion in cruise passengers to Family Island ports of entry (see Table 5). New Providence's air visitors also weakened by 2.8% to 933,205, extending last year's loss of 5.1%. In Grand Bahama, the 5.3% upturn in air arrivals cushioned a 3.8% decline in sea visitors, for a 0.3% recovery in visitor volume from the 6.3% contraction of 2001. In this regard, the

Tourist Arrivals

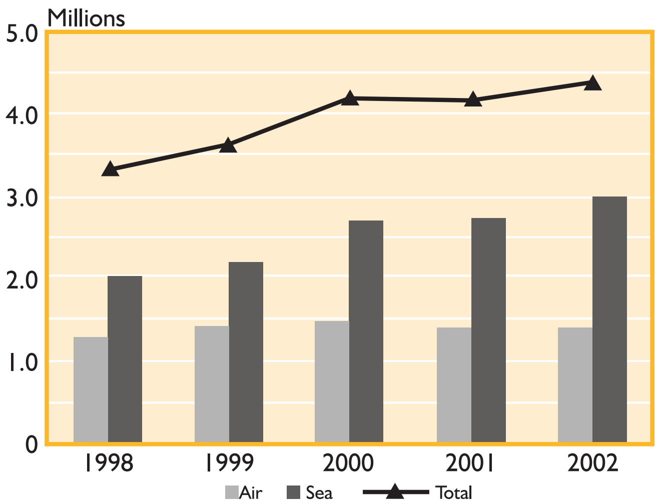


TABLE 4: Visitor Arrivals

Period	Air Arrivals	% Change	Sea Arrivals	% Change	Total Arrivals	% Change	Occupied Room Nights	% Change
1999	1,438,887	10.3	2,209,404	8.2	3,648,291	9.0	2,088,389	13.0
2000	1,481,545	3.0	2,722,286	23.2	4,203,831	15.2	2,199,358	5.3
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	2,999,026	8.9	4,401,920	5.2	2,131,658	0.7

SOURCE: Ministry of Tourism

TABLE 5: Growth in Tourist Arrivals (% Change)

PORTS OF ENTRY	1999	2000	2001	2002	2002 Market Share
Nassau/Paradise Island	20.9	17.6	1.0	(4.7)	58.7
Grand Bahama	(17.4)	1.1	(6.3)	0.3	14.4
Rest of Family Islands	7.2	21.2	(0.5)	41.2	26.9
TOTAL	**9.0**	**15.2**	**(0.5)**	**5.2**	**100.0**

SOURCE: Ministry of Tourism

Island benefited from increased airlifts, which complemented the recent expansion in hotel capacity. Meanwhile, the Family Islands, which benefited from significant cruise traffic, experienced robust growth of 41.2% from a 0.5% decline in 2001, as the 7.5% reduction in air arrivals was offset by a 54.7% upsurge in sea traffic.

Amid these mixed volume trends, indications are that restored stopover pricing was the principal factor behind the moderately improved tourism expenditure growth. Estimated hotel room revenues rose by 6.2%, reversing last year's 4.5% reduction and exceeding the 2000 outcome by 0.6%. An improved average hotel occupancy rate of 62.5% relative to 60.5% in 2001, although partly resulting from reduced aggregate capacity, generated a 0.7% increase in nightly sales. This supported a 5.5% appreciation in the average nightly room rate to $155.64, and eclipsed the estimated $148.76 per night for 2000.

On a destination basis, New Providence's 7.5% room revenue gain compared with an 8.4% decline in 2001, as an 8.9% increase in average room rates to $177.83 per night offset a 1.3% decrease in room sales. Although average room rates in Grand Bahama declined by 5.7% to $81.46 per night, a 9.7% increase in room night sales contributed to revenue gains of 3.5%. However, estimated revenue for the Family Islands declined by 7.9%, as a result of the 0.6% contraction in the average room rate to $161.17 per night and a 7.4% reduction in the number of room nights sold.

As to the outlook, it is expected that the industry will experience further growth during the opening months of 2003, although this could stall, should war break out in Iraq. While cruise sector demand has been more resilient in the face of such tensions and the weak economic conditions in the United States, these negative forces are expected to impact stopover activity throughout the first half of 2003. Sustained growth in the sector is not expected to materialize until the conflict is ended, and with a lag to any subsequent strengthening in the United States economy. A number of domestic developments, however, are likely to have a positive impact on the industry over the medium-term. These include the increased hotel room capacity in the Family Islands (notably Exuma), added airlift support for Grand Bahama, and the planned upgrade to key port facilities throughout the Islands.

Construction

Based on the latest available data for the first six months of 2002, construction output remained relatively stable, with increased support from new activity offsetting reduced expenditures on projects commenced in earlier periods. Forward looking indicators suggest continued softening in activity amid

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

	1999	2000	2001	YTD - June 2001	YTD - June 2002
Building Permits					
Number	3,206	3,208	3,053	1,629	1,572
Value	646,539	536,586	752,030	517,582	254,736
Building Starts					
Number	1,065	1,064	1,010	573	646
Value	162,496	193,443	177,907	98,474	116,757
of which:					
i) **Residential**					
Number	976	976	933	541	580
Value	133,450	162,679	144,713	79,623	80,854
ii) **Commercial**					
Number	89	87	71	32	64
Value	29,046	30,549	30,358	18,851	34,313
iii) **Public**					
Number	-	1	6	-	2
Value	-	215	2,836	-	1,590
Building Completions					
Number	1,250	1,519	1,706	786	763
Value	247,682	299,982	323,957	159,158	154,889

SOURCE: Department of Statistics, Quarterly Bulletin of Construction Statistics

a slowdown in foreign investment led projects, although domestic housing investments remained robust.

The number of building units started during the first half of the year rose by 12.7% to 646, with estimated value higher by 18.6% at $116.8 million (see Table 6). Commercial starts doubled in number to 64, while value rose 82.0% to $34.3 million. Housing starts also grew in number by 7.2% to 580, and in value by 1.5% to $80.9 million. Additionally, the public sector recorded two new projects, estimated at $1.6 million, as compared to no reported activity in the same period of 2001.

Estimated building completions decreased by 2.9% to 763 units, and depreciated in value by 2.7% to $154.9 million relative to the comparable 2002 period. Following the completion of hotel sector developments in Grand Bahama, the value of commercial completions contracted by 40.6% to $40.8 million, with a more marginal 4.9% decline in number to 77 units. Conversely, residential completions strengthened in value by 26.0% to $114.0 million, associated with terminated upscale developments in New Providence (Paradise Island), although the number of completions was only reduced by 2.4% to 685 projects.

Building permits granted during the first six months of 2002, an indication of planned future activity, decreased by 3.5% to 1,572, with the corresponding value slashed by 50.8% to $254.7 million. Most of the easing was concentrated in commercial valuations, which contracted to $86.1 million from 2001's $228.1 million that included hotel sector redevelopments in Grand Bahama; however, the associated number of projects rose by 5 to 230. Residential permits also declined by 4.5% to 1,339, with a sizeable reduction in value of 41.2% to $168.4 million, after 2001's approvals for various upscale developments in New Providence.

Unlike the volatility recorded for foreign-led investment in the sector, steady support for housing developments was evidenced in a $154.7 million (12.9%) increase in financial institutions' (banks, insurance companies and the Bahamas Mortgage Corporation) outstanding residential mortgages for new construction and building repairs. Supported by a continuing favourable average lending rate of 8.9%, disbursements for residential investments rose by 52.1% to $261.7 million in 2002, dwarfing the 2.5% decrease in loan disbursements for commercial activity to $19.6 million.

Fisheries

In the context of improved coverage of production statistics and more favourable weather during the peak crawfish season, Department of Fisheries data for 2002 indicated a sizeable gain in the recorded value of fisheries output, to $102.7 million from $67.5 million in 2001. A 29.7% increase in average prices supported a 17.3% hike in the volume of recorded catch. Nearly two-thirds of product weight (7.4 million pounds) and 90.0% of the value ($92.2 million) represented crawfish tails which, also given the improved data coverage, were respectively higher by 49.9% and 65.8%. In addition, the average price for crawfish tails appreciated by 11.0% to $12.54 per pound.

Better coverage, favorable pricing and increased production also boosted official estimates of fisheries export earnings, by 38.9% to $99.5 million in 2002. Crawfish shipments (90.7% of volume and 96.3% of value) generated elevated inflows of 38.9% to $95.8 million, capitalizing upon a 16.4% increase in the average price per pound to $15.90 and a 21.7% rise in weight to 6.0 million pounds. Proceeds from scale fish and other products also rose by 19.3% to $1.4

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

(Oct./Nov. 1995 = 100)

Group	Weight	1999	2000	2001	2002
Food & Beverage	138.3	0.2	1.6	2.1	2.0
Clothing & Footwear	58.9	0.9	0.7	0.5	0.5
Housing	328.2	0.8	0.2	0.2	0.1
Furniture & Household Operation	88.7	1.3	2.0	2.6	4.9
Medical Care & Health	44.1	2.0	2.4	1.7	1.2
Transportation & Communication	148.4	(1.5)	2.3	1.6	0.7
Recreation, Entertainment & Services	48.7	4.3	(0.9)	3.5	2.5
Education	53.1	12.2	11.9	7.7	12.9
Other Goods & Services	91.6	1.3	(0.4)	5.5	2.1
ALL ITEMS	**1,000.0**	**1.3**	**1.7**	**2.0**	**2.0**

SOURCE: Department of Statistics

million; however, the combined export receipts from sponges and conch meat, the next two largest components, decreased by one-fourth to $2.1 million.

Prices

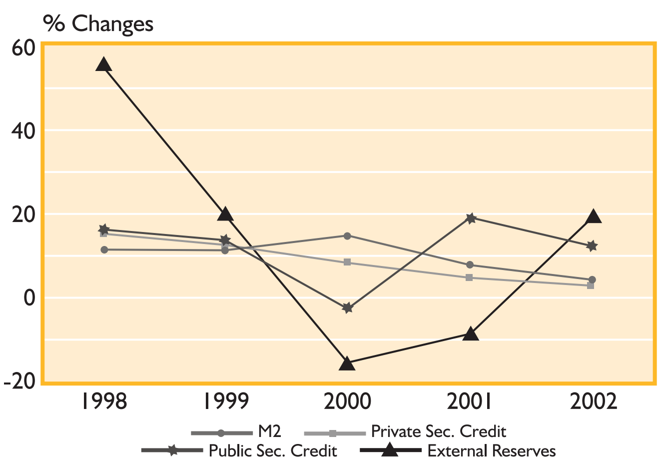
Inflation, as measured by changes in the average Retail Price Index, stabilized at 2.0% for 2002 (see Table 7), despite a tuition-based advance in educational costs to 12.9% from 7.7% last year, and a firmer increase on furniture & household operations costs. In an offsetting trend, the average cost advance was retrenched for recreation entertainment & services (2.5%), food & beverages (2.0%), medical care & health (1.2%), transport & communication (0.7%), housing (0.1%) and “other” goods & services (2.1%); and steady for clothing & footwear (0.5%).

Money, Credit and Interest Rates

The monetary situation during 2002 reflected a continuation of general weakness in the economy and the tight credit policy stance maintained by the Central Bank. A significant impulse was provided by the upturn in the financial system's net foreign liabilities, which supported gains in bank liquidity and growth—although slowed—in the money supply, which nevertheless trailed the moderated public sector-led hike in domestic credit. Under these conditions, both the weighted average lending and deposit interest rates moderated, and the loan-deposit interest rate spread narrowed. Interest rate trends and slowed credit growth also caused some reduction in bank profitability during 2002, despite improvements in operating cost efficiency.

On the policy front, negative pressure on external reserves following September 11 were largely contained by the credit ceiling imposed on banks since September 20, 2001 and retained throughout 2002, as well as the notable recovery in tourism. Consequently, the Central Bank moved in February to restore the open Bahamian dollar position on commercial banks' foreign currency transactions to $0.5 million, after a temporary relaxation to $5.0 million in November 2001, in a bid to support the external reserves when the outlook for the tourism sector was less certain. Commercial banks' demand for the facility during the period of relaxation was not significant, as only one institution availed itself of the accommodation.

Monetary Developments



Liquidity

Continued restraint in private sector lending combined with converted inflows from public sector foreign currency borrowings supported a more than twofold growth in average monthly liquidity to $118.1 million. Net free cash reserves of the banking system advanced by 57.3% to $88.9 million at end-2002, to represent an expanded 2.4% of Bahamian dollar deposit liabilities compared to 1.6% in 2001. Average monthly excess liquid assets also strengthened to $115.2 million from $47.0 million, equivalent to a robust 19.5% of the statutory minimum as compared to 8.3% in 2001.

Bank Liquidity

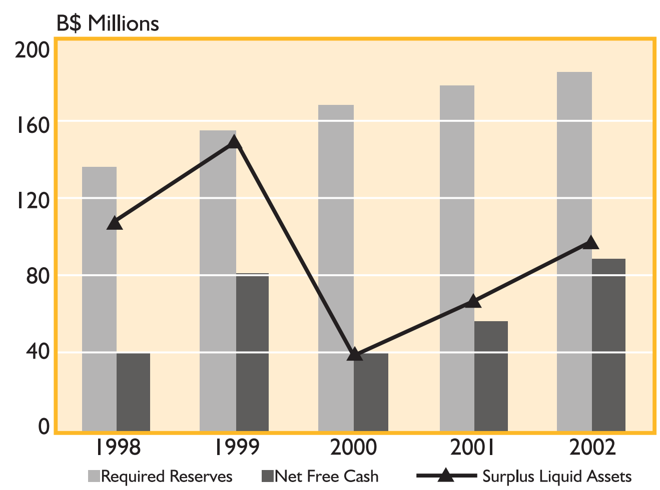


TABLE 8: Central Bank Foreign Exchange Transactions (B$'000)

Period	Commercial Bank Purchases	Commercial Bank Sales	Commercial Bank Net Purchase/ (Sale)	Government Purchases	Government Sales	Government Net Purchase/ (Sale)	Other Purchases	Other Sales	Other Net Purchases/ Sale	Total Purchases	Total Sales	Total Net Purchases (Sale)
Qtr.I	130,200	30,072	100,128	22,606	26,311	(3,705)	5,969	35,218	(29,249)	158,775	91,601	67,174
Qtr.II	120,944	26,642	94,302	20,472	41,329	(20,857)	13,898	26,877	(12,979)	155,314	94,848	60,466
Qtr.III	62,679	77,138	(14,459)	17,927	31,698	(13,771)	4,412	24,728	(20,316)	85,018	133,564	(48,546)
Qtr.IV	97,253	98,776	(1,523)	15,368	26,910	(11,542)	6,271	22,883	(16,612)	118,892	148,569	(29,677)
1999	**411,076**	**232,628**	**178,448**	**76,373**	**126,248**	**(49,875)**	**30,550**	**109,706**	**(79,156)**	**517,999**	**468,582**	**49,417**
Qtr.I	118,639	48,403	70,236	21,468	30,906	(9,438)	4,707	31,604	(26,897)	144,814	110,913	33,901
Qtr.II	93,611	67,695	25,916	23,772	31,842	(8,070)	6,521	29,570	(23,049)	123,904	129,107	(5,203)
Qtr.III	73,494	99,694	(26,200)	16,192	27,508	(11,316)	2,485	22,228	(19,743)	92,171	149,430	(57,259)
Qtr.IV	102,086	115,531	(13,445)	23,637	29,430	(5,793)	5,475	48,160	(42,685)	131,198	193,121	(61,923)
2000	**387,830**	**331,323**	**56,507**	**85,069**	**119,686**	**(34,617)**	**19,188**	**131,562**	**(112,374)**	**492,087**	**582,571**	**(90,484)**
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**

SOURCE: The Central Bank of The Bahamas

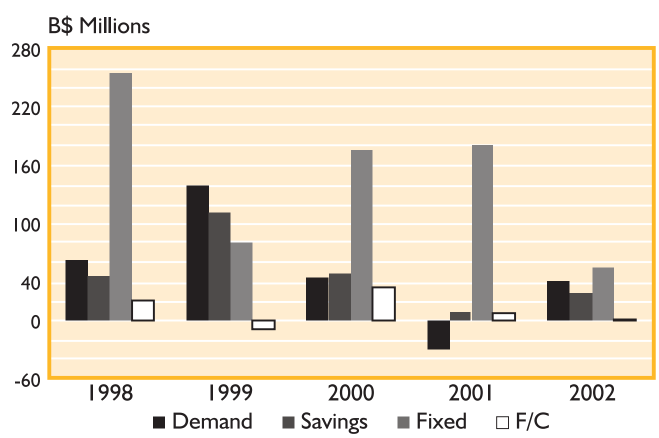
Foreign Exchange

The Central Bank's net foreign exchange transactions during 2002 were shaped primarily by demand constraints, amid the ceilings imposed on the banking system's local currency credit, alongside public sector borrowing activities. Total foreign currency sales contracted by 1.1% to $550.0 million, in contrast to a public sector-led 14.5% boost in purchases to $587.3 million. The resultant net purchase of $37.3 million contrasted with a $43.6 million net sale in 2001 (see Table 8).

In the first five months of the year, the Bank's seasonal net purchase from commercial banks and the public sector was only marginally higher at $46.0 million, but accelerated to $132.0 million by end-June, amid Government's drawdown of the remaining US$25.0 million of the US$125.0 million. Over the second half of 2002, the seasonal net foreign currency outflow widened to $94.7 million from $61.8 million in 2001, when demand conditions were more constrained in the immediate aftermath of September 11, 2001.

For the year as a whole, the Bank's net purchase from commercial banks was nearly halved to $63.0 million, as increased profit remittances by banks utilized a greater share of the incremental increase in these institutions' net purchases from the private sector. Nevertheless, this was cushioned by a significant narrowing in the Central Bank's net sale to

Changes in Bank Deposits



the public sector and others, to $25.8 million following the previous year's increase to $164.0 million.

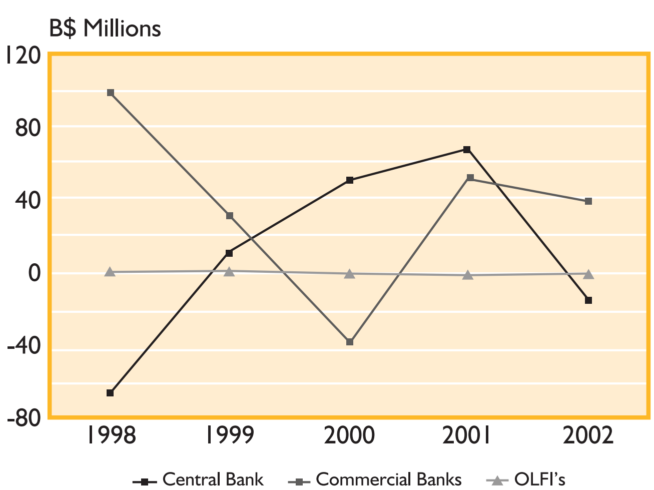
Against this background, the stock of external reserves grew by $60.8 million (19.5%) to $373.2 million, reversing the year-earlier $30.2 million (8.8%) decline.

Money Supply

Money supply (M3) growth trended lower for the third consecutive year, to 3.2% in 2002 from 4.7% in 2001 and 9.3% in 2000. After declining by 3.4% in 2001, narrow money (M1) rose by 5.3% in 2002 to $817.7 million—representing 21.3% of the overall money stock. Broad-base rebuilding of public and private sector balances reinforced demand deposits growth of $39.7 million (6.4%), to contrast with the $29.8 million (4.6%) fall-off in 2001. The increase in currency in circulation, however, was marginally lowered to $1.3 million (0.8%).

Amid the persistent weakness in economic activity, reduced public corporation balances and moderated accretions in placements by private individuals limited fixed deposits growth to $52.2 million (2.3%) from $180.3 million (8.7%) in 2001, and outweighed the strengthened buildup in savings deposits of $26.1 million (4.3%). Consequently, broad money (M2) growth slackened to 3.3% from 4.7% in 2001.

Changes in Net Claims on Government



After a marginal decline in residents' foreign currency deposits of $0.2 million (0.2%), overall money (M3) expansion receded to $119.1 million from $166.6 million in 2001, for a closing stock of $3,836.2 million.

Fixed deposits represented the largest component of the money stock (59.9%), followed by demand deposits (17.3%), savings deposits (16.4%), currency in the hands of the public (4.0%) and foreign currency deposits (2.4%).

In an analysis of banks' total deposit liabilities, including amounts owed to Government, commercial banks' majority share decreased slightly to 97.5%. By depositor categories, private individuals held the largest share of the liabilities (55.4%), followed by business firms (23.3%), the public sector (11.4%), private financial institutions (4.3%), and "others" (5.6%)—including institutional investors.

Based on the value and number of accounts details, amounts in individual balances under $10,000 represented 9.4%, although commanding 90.7% of total accounts. In contrast, balances over $50,000 constituted 75.8% of the total value, but only 2.8% of the accounts, while placements valued between $10,000-$50,000 registered 6.5% of the accounts and 14.8% of value.

Domestic Credit

Growth in domestic credit abated to $263.1 million (5.6%) from $406.8 million (9.5%) in 2001, and was dominated by accelerated public sector borrowing in foreign currency, in contrast to significantly moderated net private sector lending (see Table 9). The proportion of the advance denominated in Bahamian dollars was correspondingly decreased to 37.3% from 87.1% in

2001, with foreign currency credit expansion markedly higher at $180.1 million (32.9%) from $52.3 million (10.6%).

Notwithstanding the strong advance in foreign currency credit, overall net credit to Government slackened to $25.4 million (4.1%) from $117.4 million (23.1%), since the former facilitated a significant repayment of Bahamian dollar claims. Credit to the rest of the public sector rose appreciably to $70.2 million (47.1%) from $5.9 million (4.1%) the year earlier.

Private sector credit growth decelerated to $167.5 million (4.3%) from $283.5 million (7.8%) in 2001, and was driven primarily by strong gains in mortgage lending as opposed to either restrained or contracted claims on consumer credit.

On a sectoral basis, the $163.9 million (6.4%) uptrend in personal loans, accounted for the bulk of the increase, although about a third less than in 2001 (see Table 10). Housing loans—mainly residential mortgages—dominated this trend, increasing at an incrementally firmer pace of $152.1 million (15.2%), while consumer credit contracted marginally by $4.5 million (0.3%) as opposed to a two-thirds slower uptrend of $46.8 million (3.1%) in 2001. In addition, personal overdrafts rebounded by $11.9 million (32.5%), following a net paydown of $3.5 million (8.6%) last year.

Among other private sector components, a net gain was registered for miscellaneous loans ($29.1 million), tourism ($10.3 million) and professional and other services ($5.5 million); and a halving in growth for private financial institutions ($8.4 million). Almost

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

	Outstanding as at 1999	2000	Absolute Changes 2001	2002	Outstanding as at 2002
Destination					
Government (net)	495.5	13.1	117.4	25.4	651.4
Central Bank	69.8	51.0	66.6	(14.4)	173.0
Commercial Banks	421.7	(38.3)	52.0	39.9	475.3
Other Local Financial Institutions	4.0	0.4	(1.2)	(0.1)	3.1
Rest of Public Sector	172.9	(29.6)	5.9	70.2	219.4
Central Bank	6.8	1.6	(0.5)	(0.3)	7.6
Commercial Banks	166.1	(31.3)	6.4	70.5	211.7
Other Local Financial Institutions	-	0.1	-	-	0.1
Private Sector	3155.1	463.5	283.5	167.5	4,069.6
Commercial Banks	3071.4	439.7	270.8	143.7	3,925.6
Other Local Financial Institutions	83.7	23.8	12.7	23.8	144.0
Financing					
Liabilities to the private sector & rest of the public sector	3247.6	302.9	166.6	119.1	3,836.2
Currency	148.4	3.0	2.1	1.3	154.8
Demand deposits	651.3	71.9	(17.5)	27.9	733.6
Savings deposits	548.2	52.4	5.9	28.6	635.1
Fixed deposits	1899.7	175.6	176.1	61.3	2,312.7
International reserves	404.0	(61.4)	(30.2)	60.8	373.2
Other net external liabilities ( ) = increase	(454.5)	27.8	(120.2)	(183.6)	(730.5)
Capital and surplus	562.1	110.3	83.1	65.7	821.2
Other (net)	36.7	(0.2)	(6.7)	44.5	74.3

SOURCE: The Central Bank of The Bahamas

TABLE 10: Sectoral Distribution of Bank Credit (B$ Millions)								
Sector	**1999**		**2000**		**2001**		**2002**	
	$	**%**	**$**	**%**	**$**	**%**	**$**	**%**
Agriculture	11.8	0.3	8.7	0.2	15.8	0.4	9.0	0.2
Fisheries	5.7	0.2	6.8	0.2	6.7	0.2	5.3	0.1
Mining & Quarrying	17.5	0.5	21.9	0.6	23.6	0.6	21.0	0.5
Manufacturing	62.7	1.9	93.1	2.4	67.5	1.6	64.4	1.4
Distribution	161.2	4.8	181.9	4.8	225.5	5.4	220.6	5.0
Tourism	215.0	6.4	230.8	6.0	228.5	5.5	238.8	5.4
Entertainment & Catering	25.5	0.7	38.1	1.0	33.4	0.8	33.4	0.8
Transport	45.0	1.3	62.7	1.6	71.5	1.7	65.0	1.5
Construction	239.1	7.1	334.7	8.7	363.0	8.8	337.2	7.6
Government	68.5	2.0	89.0	2.3	115.4	2.8	170.0	3.8
Rest of Public Sector	157.6	4.7	131.1	3.4	133.2	3.2	202.5	4.6
Private Financial Institutions	3.8	0.1	12.0	0.3	28.2	3.0	36.6	0.8
Professional & Other Services	130.0	3.8	126.6	3.3	125.0	1.7	130.5	2.9
Personal	2,061.4	61.1	2,294.9	59.8	2,548.7	61.5	2,712.6	61.2
Miscellaneous	171.3	5.1	206.5	5.4	156.5	3.8	185.6	4.2
TOTAL	**3,376.1**	**100.0**	**3,838.8**	**100.0**	**4,142.5**	**100.0**	**4,432.5**	**100.0**

SOURCE: The Central Bank of The Bahamas

offsetting, net repayments were registered for construction ($25.8 million), transport ($6.5 million), distribution ($5.0 million), manufacturing ($3.0 million), agriculture ($6.7 million), fisheries ($1.3 million) and mining & quarrying ($2.7 million); and a moderated net decline for distribution ($5.0 million).

Despite the overall decline in consumer lending, some notable growth was evident in the credit cards category ($21.0 million), land purchases ($12.0 million) and education ($10.0 million) loans. Conversely, a net repayment was recorded for private cars ($26.9 million) and home improvement ($18.6 million) loans; and fluctuations among the other categories averaged less than $2.0 million.

Interest Rates

In interest rate developments, the spread between commercial banks' weighted average loan and deposit rates was virtually stable at 7.22%. Reflecting greater concentration on residential mortgage lending, the weighted average loan rate declined 14 basis points to 11.33%, while buoyancy in liquidity supported a 13 basis point drop in the counterpart deposit rate, to 4.11%. Benchmark rates—commercial banks' Prime and Central Bank's Discount Rate were held steady at 6.00% and 5.75%, respectively since July 1999. However, the 90-day Treasury bill rate rose by 55 basis points to 2.50%.

On the lending side, the reduction in average rates included a 34 basis point decrease in consumer loan rates to 13.07%, and a 5 basis point decline in residential mortgage rates, to 8.90%. Conversely, the average rate on overdrafts firmed by 20 basis points to 10.63% and for commercial mortgages, by 16 basis points to 9.04%.

For deposits, the average savings rate rose to 2.77% from 2.69% in 2001, whereas the average rate on fixed deposits eased to within a band of 4.04% - 4.62% vis-à-vis 4.19% - 4.99%.

Net Foreign Assets

The financial system's net foreign liabilities rose by $122.8 million (52.4%) to $357.3 million during 2002, as banks accommodated public sector borrowing requirements (see Table 11). This, however, was less than the nearly three-fold increase to $234.5 million posted for 2001, when the Central Bank's external position moved in the same direction as banks. Commercial banks' net foreign liabilities rose by $174.5 million (31.8%) and the OLFIs' position was reversed, from a net foreign asset of $1.5 million to a net foreign liability of $7.6 million.

Amid more tempered domestic demand impulses, external reserves improved by $60.8 million (19.5%) to $373.2 million, vis-à-vis 2001's $30.2 million (8.8%) reduction to $312.4 million. The average monthly level was higher by $50.7 million (14.8%) at $393.5 million, as the month-end stock increased from a January low of $341.9 million

TABLE 11: Foreign Reserves Position (B$'000)

		1999	2000	2001	2002
1. THE CENTRAL BANK	EXTERNAL RESERVES (Beginning of Year)	338,796	404,041	342,561	312,399
a. SALES TO:					
i) Commercial Banks		232,628	331,323	275,857	254,46
ii) Government		126,248	119,686	137,568	163,372
iii) Other Customers		109,706	131,562	142,986	132,182
iv) Total Sales		468,582	582,571	556,411	550,019
b. PURCHASES FROM:					
i) Commercial Banks		411,076	387,830	396,198	317,489
ii) Government		76,373	85,069	100,985	244,766
iii) Other Customers		30,550	19,188	15,608	25,053
iv) Total Purchases		517,999	492,087	512,791	587,308
c. Gold Bullion		-	-	-	-
d. Reserve Tranche		-	(471)	(288)	641
e. SDR Tranche		(6)	89	(4)	(8)
f. Other		15,834	29,386	13,750	22,847
g. Unrealised (Depreciation)/Appreciation of Marketable Securities at market value		-	-	-	-
	INCREASE/(DECREASE) (During Year)	65,245	(61,480)	(30,162)	60,769
	EXTERNAL RESERVES (End of Year)	404,041	342,561	312,399	373,168
2. DOMESTIC BANKS	NET FOREIGN ASSETS POSITION (Beginning of Year)	(362,738)	(454,500)	(426,702	(546,910)
a. Foreign Exchange Transactions		(6,678)	4,397	(44,690)	13,314
i) Net Purchase/(Sale): Central Bank		(178,448)	(56,507)	(120,341)	(63,024)
ii) Net Purchase/(Sale): Other Customers		171,770	60,904	75,651	76,338
b. Changes in Local Liabilities		397,086	383,042	290,461	335,500
c. Changes in Local Assets		488,848	355,244	410,669	519,061
	INCREASE/(DECREASE) (During Year)	(91,762)	27,798	(120,208)	(183,561)
	NET FOREIGN ASSETS POSITION (End of Year)	(454,500)	(426,702)	(546,910)	(730,471)
	TOTAL NET FOREIGN ASSETS (End of Year)	(50,459)	(84,141)	(234,511)	(357,303)

SOURCE: The Central Bank of The Bahamas

to a July peak of $465.6 million, with a subsequent drawdown of $92.4 million over the remainder of the year. Considered against the 50% statutory foreign currency limit which the Central Bank is required to maintain against total demand liabilities, the surplus or usable reserves increased to $137.4 million from $102.4 million at end-2001.

Bank Profitability

In the context of more constrained credit growth and softened returns on loans, bank profitability weakened during 2002. For the four quarters through September 2002, the most recent 12-month period for which consolidated data are available, net income decreased by $27.2 million (15.8%) to $145.1 million, as against growth of $35.6 million (26.0%) to $172.3 million in the twelve months through September 2001. Underlying this performance was an 11.5% fall-off in the net interest margin, which more than offset the 5.5% reduction in operating costs. Earnings from commissions and foreign exchange transactions declined by 12.0%, contrasting with a 16.7% growth in 2001, and reflecting a lower volume of activity. However, other net income receipts recovered by 9.2%, from a decline of 20.7% in 2001.

Measured against average balance sheet assets, the net income ratio (return on assets) moved appreciably lower, to 2.73% from 3.55% in 2001. The earnings margin, the combined ratio of net interest income and commissions and fee income, decreased by 132 basis points to 5.57%. These overshadowed a reduction in the operating cost ratio to 3.15% from 3.66% in 2001, as well as moderated pressures from bad debt expenses and depreciation. Given the decreased net interest margin, banks' effective interest rate spread on Bahamian dollar lending and deposits narrowed to 6.08% from 6.24% in 2001.

Other Financial Sector Developments

In other financial sector developments, 2002 was marked by further structural changes in the banking sector, as institutions responded to the Central Bank's new physical presence requirement, and adjusted to tighter regulatory measures affecting the provision of financial services. While the international services sector also operated under less favorable conditions for growth in wealth management business, given the extreme volatility and depressed trends in financial assets prices, negative pricing trends also impacted the domestic capital markets.

The number of banks and trust companies operating from or within The Bahamas decreased by 55 to 301, comprising a drop in public licensees of 38 to 189 and in restricted and non-active licensees of 17 to 112. Total assets among public institutions were less impacted however, as the reduction in numbers mainly affected managed licensees. With the reduction in licencees, the number of physically staffed operations also decreased to 203 from 221 at end-2001. Nevertheless, indications are that another 32 licencees were in the process of transitioning to full physical presence.

Notable developments affecting the domestic banking sector included the regulatory approval granted by the Central Bank and other regional supervisory authorities (except the British Virgin Island) for the combination of the Caribbean operations of Barclays Bank Plc and CIBC (West Indies) Holdings Limited. The newly created institution, FirstCaribbean International Bank (Bahamas) Ltd., is headquartered in Barbados, where the principal supervisory and regulatory responsibilities also rest. Also significant was the closure announcement by Lloyds Bank and Trust (Bahamas) Limited in October 2002, with plans to transfer operations to its North American office.

Outside of the banking sector, statistics compiled by the Securities Commission indicated a modest increase in the number of active mutual funds under management, from nearly 700 to 706 as at December 31, 2002 and the value of assets under management rose moderately to $97.3 billion. In the insurance sector, the number of registered companies increased by 3 to 147, reflecting growth in the domestic sector, as the number of external insurers in this total remained at 27. Based on the latest available information for 2001, the asset base of the domestic insurers was in excess of $680 million.

Domestic capital market developments reflected continued fall-off in the level of trading activity on publicly listed companies on The Bahamas International Securities Exchange (BISX), alongside increased downward pressure on equity prices. The number of publicly traded companies remained at 23; however, BISX-listed entities decreased by one to 16, following the voluntary delisting by RND Holding Limited in August. The volume of shares traded on the exchange decreased by 30.6% to 2.748 million, corresponding to a reduced estimated value of $13.6 million as compared to $23.7 million in 2001. Reflecting the market valuation loss in this process, the BISX all Share Price Index declined by 13.0% during 2002, compounding the sizeable drop in valuations experienced for 2001.

Emphasis on the capital market infrastructure was underscored by public and private sector initiatives to formulate a more financially viable development plan for the BISX. In February 2002, a BISX Joint Capital Market Development Working Group of private and public sector representatives was formed to develop a long-term financing proposal for the Exchange. Following a Central Bank funded study, a strategic financing plan with recommendations on Government support was presented by the Bank and BISX's Board of Directors for the consideration of the Government in August. In November 2002, the Government subsequently appointed a select Committee, to advise it on a final support strategy for the Exchange.

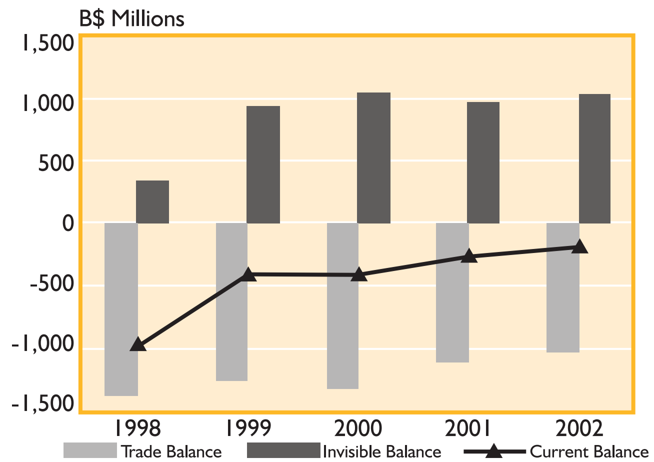
International Trade and Payments

Provisional balance of payments data indicated a significant reduction in the current account deficit, to an estimated $188.1 million from $274.0 million in 2001. Underlying this outcome was some slackening in net import demand and a recovery in net invisible receipts, attributed mainly to an upturn in net tourism inflows, and reduced payment for some foreign services (see Table 12).

The merchandise trade deficit decreased by 6.8% to an estimated $1,035.6 million. Amid a continuation of tight consumer credit conditions and cautious domestic demand, non-oil merchandise imports contracted further by 7.4% to $1,775.6 million, while export earnings decreased by 5.3% to an estimated $740.2 million. Increased consumption levels and some price firming boosted the oil import bill higher by 6.3% to $289.8 million. Product categories recording higher per barrel costs included Bunker 'C' fuel—an input to electricity generation—by 34.0% to $31.63; aviation gas by 5.8% to $80.01 and gas oil, by 39.06% to $28.81. However, the per barrel cost of motor gas, fell by 5.8% to $34.74; propane, by 19.5% to $23.50 and jet fuel, by 12.6% to $30.26.

The estimated services account surplus expanded by $46.8 million (4.8%) to $1,017.7 million in 2002. A more positive tourism performance supported net travel receipt gains of $54.9 million (3.8%) to $1,508.3 million, and offshore companies' local expenses advanced to $114.6 million from $87.4 million. The net outflow for foreign transportation services also narrowed by nearly one-fourth to $114.6 million. Offsetting influences included elevated net payments for foreign insurance services, which increased for the third consecutive year to $91.2 million from $87.4 million in 2001, on account of increased risk premiums for

Balance of Payments



casualty coverage. Higher net outflows were also registered for government services, which grew by 25.1% to $60.8 million, and for "other services"—including construction and royalty payments—which were up by 13.5% to $326.6 million, after a 7.9% fall-off in 2001.

Net income remittances increased by an estimated $37.2 million (21.2%) to $212.5 million in 2002, mainly due to a 28.0% hike in repatriation investment income. In particular, elevated remittances by banks more than countered lowered outflows from other private businesses, boosting private sector net profit repatriations by more than one-fourth to $171.4 million. However, after some offsetting of external debt costs against earnings on external reserves, net official income receipts firmed incrementally to $8.7 million. Meanwhile, the net labour income outflow stabilized at $49.8 million.

Net transfer inflows were approximately stable at $42.4 million, with increased net government receipts of 7.2% to $49.0 million mitigating nearly doubled net workers remittances and other outflows of $6.6 million.

In capital and financial transactions, the estimated surplus recovered to $417.1 million from a narrowing to $260.2 million in 2001, which also eclipsed the 2000 inflow of $427.9 million but with banking and public sector transactions leading trends. Short-term inflows through the banking sector, largely associated with public sector foreign currency borrowing, increased sharply to $205.4 million from $120.4 million in 2001. The public sector recorded a marginal net external debt inflow of $1.9 million, with the reversal in the Government's long-term position to a net outflow of $51.2 million from a net inflow of $22.3 million, offset by the public corporations' switch to a $53.1 million net external borrowing from a $26.0 million net repayment in 2001. Total net private investment inflows strengthened to $234.3 million from $164.7 million in 2001. In a turnaround, direct equity investments approximately doubled to $121.6 million and net real estate inflows rallied by 24.8% to $47.7 million. In addition, the private sector's net external loan proceeds were incrementally raised to $65.0 million.

After adjusting for possible errors and omissions, the overall payments balance recorded a surplus of $60.6 million, reversing the $30.0 million deficit of 2001.

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

	1999P	2000P	2001P	2002P
I) CURRENT ACCOUNT	(406.1)	(412.9)	(274.1)	(188.3)
i) Merchandise Trade (net)	(1,249.3)	(1,329.1)	(1,111.3)	(1,035.5)
Exports	523.2	786.0	765.0	740.3
Imports	1,772.5	2,115.1	1,876.3	1,775.8
ii) Services (net)	936.1	1,034.8	971.0	1,017.5
Travel	1,272.6	1,521.0	1,453.5	1,508.3
Transportation	(112.3)	(136.5)	(145.6)	(114.6)
Other	(224.1)	(349.6)	(336.9)	(376.2)
iii) Income (net)	(129.7)	(162.0)	(175.5)	(212.6)
Compensation of Employees	(41.0)	(51.1)	(48.5)	(49.9)
Investment Income	(88.7)	(110.9)	(127.0)	(162.7)
iv) Current Transfers (net)	36.4	43.4	41.8	42.4
Government	41.5	47.4	45.8	49.0
Private	(5.1)	(4.0)	(4.0)	(6.7)
II) CAPITAL AND FINANCIAL ACCOUNT	585.5	411.4	260.2	417.1
i) Capital Account (Transfers)	(13.6)	(16.4)	(21.3)	(24.5)
ii) Financial Account	599.1	427.9	281.5	441.6
1. Direct Investment	149.1	250.3	101.1	169.3
2. Other Investment	449.9	177.5	180.4	272.3
Central Gov't Long Term Capital Flow (net)	2.5	0.0	22.3	(51.2)
Other Public Sector Capital	(7.3)	(11.6)	(26.0)	53.1
Banks	93.4	(29.6)	120.4	205.4
Other	361.3	218.7	63.6	65.0
III) NET ERRORS AND OMISSIONS	(114.2)	(59.8)	(16.1)	(168.4)
IV) CHANGES IN EXTERNAL RESERVES ( ) = increase	(65.3)	61.5	30.0	(60.6)

SOURCE: The Central Bank of The Bahamas

International Economic Developments

Although the world economy showed signs of recovery during 2002, output trends were highly divergent across economies and the employment situation remained weak. Growth continued to be impeded by plummeting global equity markets, amid heightened geopolitical tensions and corporate governance issues, which dampened consumer, business and investor confidence. The International Monetary Fund's (IMF) estimates that global output growth firmed slightly to 2.8% in 2002 from 2.2% in 2001 and that inflation was tempered, because of underlying weakness in private demand. Among the major economies, expansionary fiscal stimulus was an important component in demand growth while, although still accommodating, monetary policy easing was less aggressive than in 2001 when major central banks provided coordinated stimulus to shore up financial market confidence after September 11. Important developments nevertheless, included a further precipitous decline in global equity market valuations, which reflected, inter alia, concerns over the escalating possibility of war in Iraq. In addition, supply worries sparked a marked increase in the price of oil, and the United States dollar was broadly depreciated against other major currencies as growth fundamentals were relatively less superior than in previous years. Although global trade volumes rallied during the year, the major countries experienced a deterioration in their external account positions, because of more strengthened imports as opposed to export demand.

After slowing to 0.6% in 2001, the pace of real output growth in the major industrial countries advanced to an estimated 1.4% in 2002; albeit, the improvement was not uniform. In the United States, increased federal outlays on defense and homeland security sustained an annual GDP advance of 2.4% from an abated 0.3% in 2001. The Canadian economy also registered an improved performance, with accelerated growth of 3.4% from 1.5% in 2001 due to strengthened internal private demand and better export performance due to currency weakness. Conversely, growth in the euro area softened to an estimated 0.9% from 1.4% in 2001, owing to sluggish demand on the continent, with Germany's incremental advance slackened to 0.2% from 0.6% in 2001, on account of faltering consumer confidence and a fall in industrial production. Output expansion in the United Kingdom slowed to a 10-year low of 1.6% from 1.9% in 2001, despite gaining momentum in the second half of the year when the effects of prime rate cuts and increased government spending took effect. Net exports continued to exert a drag on overall GDP growth, although domestic demand remained resilient. Japan's 2.0% annualized growth in the fourth quarter was sufficient to support a marginal annual real GDP gain of 0.3% relative to 0.4% in 2001, with robust expansion in exports and business investments still countered by weak household expenditures and tightened public sector outlays.

In the developing world, estimated real output growth strengthened to 4.2% from 3.9% in 2001, but with divergent performance trends. Increasing exports of technology goods supported a firming in real output gains for the Asian states, to 6.1% vis-à-vis 5.6% in 2001; and estimated real GDP growth for the Middle East advanced strongly to 3.6% from 1.5% in 2001, on account of more favorable oil export prices. However, plagued by economic and financial instability, economies in Latin America and the Caribbean contracted by an estimated 0.6%

from a weakened 0.6% expansion in 2001. Growth also retrenched in the European Union accession states to an estimated 1.1% from 1.6% in 2001; for the former Soviet economies, to 2.7% from 3.0% in 2001 and for Africa, to 3.1% from 3.5% in 2001.

Labour market conditions in the major economies deteriorated further in 2002, with the average jobless rate firming to 6.6% from 6.0% in 2001. In the euro area, where growth was less robust, Germany's unemployment rate rose to 8.3% from 7.8% in 2001 and France's rate to 9.0% from 8.6%. Average unemployment in the United States was higher at 6.0% from 4.8% in 2001 and in Canada, at 7.6% from 7.2%. The United Kingdom also experienced an incremental gain in average unemployment, to 5.2% from 5.1% in 2001, and Japan's jobless rate moved higher to 5.5% from 5.0% as downsizing continued in the corporate sector.

Despite increased global fuel and primary commodities prices, generally subdued economic conditions curbed inflationary pressures in major economies, to an estimated 1.2% in 2002 from 1.8% in 2001. However, with the index of energy costs rising by 10.7%, the United States' consumer price inflation accelerated to 2.4% from 1.4% in 2001. Similarly, retail price inflation minus mortgage interest costs advanced to 2.6% in the United Kingdom from 2.1% last year, remaining above the central bank's 2.5% target, as oil and housing price increases continued to outweigh price discounting in housing goods and clothing. Conversely, currency appreciation in the euro area constrained inflation to 2.2% from 2.5% in 2001, with Germany's rate declining to 1.3% from 2.5% and France's holding steady at 1.8%. Although Japan experienced rising cost pressures on oil and other imports, the core consumer price index declined further to 0.6% from 0.7% in 2001, as deflation persisted.

After bottoming out in 2001, world commodities prices recovered in 2002, fueled by higher energy and gold prices. The price of non-fuel primary commodities rose by an estimated 4.2% in 2002, following a 5.4% decline in 2001, but average petroleum prices rose steadily higher. Escalating tensions in Iraq, combined with relatively low U.S. inventories and supply disruptions from Venezuela—the world's fifth largest oil exporter—overwhelmed the influence of dampened crude oil consumption and above quota production by many OPEC members. Benchmark crude oil prices escalated by 60.2% to $31.2 per barrel at end-December 2002. Gold proved to be one of the best performing commodities and financial assets of 2002, with its rally reflecting safe-haven buying in response to broader financial market instability, geopolitical tensions and economic uncertainties. Gold started the year at US$278 and rose steadily to close the year higher by 23.2% at $348.05 per troy ounce. Silver prices rose by a more subdued 3.5% to $4.78 per ounce at year's end.

Amid slow output growth in 2002, monetary policy remained substantially accommodative in some major industrial economies; albeit, central banks, taking advantage of the subdued inflationary environment, were less aggressive in easing interest rates than in 2001. In the United States, the Federal Reserve Bank effected a 51 basis point reduction in the Federal funds rate during the course of the year, to 1.24%, and slashed the discount rate twice, by a total of 50 basis points to 0.75%. This, however, was more moderate in the context of the accumulated 4.75 percentage points easing which occurred in 2001. Following the 150 basis points decline in 2001, the European Central Bank held off reducing its marginal lending and discount facility rates until December, by 50 basis points each to 3.75% and 1.75%, respectively. Conversely, the Bank of England's policy stance was neutral, as the repurchase rate was held at 4.0% during 2002, in light of economic trends. The Bank of Japan officials retained the discount rate at an historic low of 0.1%, although boosting the monthly purchases of Japanese government bonds to ¥1.2 trillion and expanding the range of assets used in money market operations.

Currency markets developments in 2002 culminated in a broadly depreciated value of the United States dollar against all major currencies, as the US economic outlook remained uncertain, and interest rate differentials moved in favor of other major countries. The largest depreciation was recorded against the Swiss Franc, by 19.5% to SF1.38. The dollar also tumbled by 18.1% against the euro to 0.95; by 12.4% against the pound sterling to £0.62; by 11.8% against the Japanese yen to ¥118.79 and by 1.1% relative to the Canadian dollar to C$1.57.

In 2002, fiscal policies provided important expansionary impulse in most major economies. In the context of less robust tax bases, the average deficit to GDP ratio in the advanced economies widened to 2.0% from 0.9% in 2001. For the United States, tax refunds cuts, combined with boosted spending on the military and homeland defense, reversed the fiscal position from a surplus of 0.6% of GDP in 2001 to an estimated deficit of 1.8% of GDP. Increased budgetary outlays also underpinned a switch in the United Kingdom's fiscal position, from a 0.2% surplus to a deficit of 0.8% to GDP in 2002, and Canada's surplus was trimmed to 0.6% of GDP from 1.0% in 2001. In addition, the consolidated euro area recorded an increased deficit ratio of 1.8% from 1.5% in 2001, incorporating further deterioration in Germany and France, to 1.2% and 3.1% of GDP from 1.1% and 2.2%, respectively in 2001. As public sector spending slowed in Japan, the overall deficit narrowed to a projected 6.1% of GDP from 6.4% in 2001.

Equity market valuations remained volatile for the third consecutive year, with the downward trend reinforced by a weakening global economy, accounting scandals, corporate governance issues and the threat of military action in Iraq. As a gauge of global trends, the Morgan Stanley World Equity Index lost 21.1%, extending the 17.8% fall-off for 2001. For the United States, the Dow Jones Industrial Average (DJIA) tumbled 16.8% to 8,342 points—its worst performance in a quarter century and marking the third consecutive year of decline. The broader S&P 500 index plunged 23.4% on top of its 11.9% loss in 2001 and 9.1% drop in 2000, to 880 points. European markets were also depressed, as Germany's DAX share price index plummeted by 43.9% to 2,893 points; France's CAC 40 index, by 33.8% to 3,064 points and the United Kingdom's FTSE 100 index, by 24.5% to 3,940 points. Similarly, Japan's Nikkei 225 index fell by 18.6% to 8,579 points.

Although growth in the world trade volumes recovered by 2.1% in 2002 from a 0.1% contraction in 2001, more strengthened net import export demand widened the major countries' external current account deficit, to an estimated 1.5% of GDP from 1.4% 2001. The United States' current account shortfall grew to an estimated 4.6% of GDP from 3.9% last year, as higher imports outstripped export gains. Despite a services trade surplus, the United Kingdom's shortfall rose above 2001's estimated ratio of 2.1%, as exports hit their lowest level in three years. Canada's surplus ratio narrowed to an estimated 1.7% from 2.8% in 2001, whereas the euro area was in a more competitive trading position, as evidenced by an expansion in Germany's current account surplus ratio to nearly 2.0% of GDP from 0.1% last year. Japan's surplus also improved significantly to a projected 3.0% of nominal output from 2.1% in 2001, owing to strengthening exports to the recovering East Asia economies.

OPERATIONS

Banking

Currency Operations

During 2002, currency in circulation increased by 1.2% to $221.3 million. Consistent with established trend, the annual peak of $230.9 million occurred during the Christmas period. The old Bahamian sterling currency note liabilities of the Central Bank totaled B£28,719.31, which was equivalent to B$82,055.09.

Bahamian dollar banknotes are issued in denominations of $0.50, $1, $3, $5, $10, $20, $50 and $100, with a circulation value of $208.6 million at end-December 2002. Although $100 and $50 banknotes represented 42.0% and 26.5% of the respective outstanding value, they accounted for only 3.8% and 4.7% of the corresponding total notes in circulation. The largest quantity of bills in circulation continues to be the $1 banknotes (67%), followed by $20 (6.5%) and $5 (6.3%) banknotes, respectively. At end-December 2002, $1 banknotes comprised 7.5% of the value of total banknotes outstanding; $20 denomination, 14.4% and the $5 bill, 3.5%.

The aggregate value of coins in circulation was $12.7 million, comprising denominations of 1¢, 5¢, 10¢ 15¢ and 25¢. The 25¢ piece is the most widely circulated denomination (36.2%), followed by the 10¢ (25.2%), 1¢ (19.7%) and 5¢ (11.0%); the 15¢ piece is circulated to a lesser extent (2.4%).

As issuer of the currency, the Central Bank is involved in all matters associated with banknotes and coins in circulation. These include currency design, the recording of all movements of currency in and out of circulation, and the examination of banknotes for reissue or destruction. In an effort to identify areas for improvement within the currency operations, the Bank engaged the services of Currency Consulting International (CCI) in November 2002 to undertake an objective review of all aspects of currency operations.

Foreign Exchange Transactions

The Central Bank's buying and selling rates for U.S. dollars from/to clearing and commercial banks remained unchanged 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 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 one half of one percent to the mid-rate.

The highest and lowest pound Sterling/Bahamian dollar rates employed by the Bank during 2002 were as follows:

	Buying	Selling	Date Employed
Highest	1.6106	1.6186	December 31, 2002
Lowest	1.4076	1.4146	January 28, 2002

Relations with the Public Sector

With the issuance of an additional B$10.8 million during 2002, Treasury bills outstanding increased to B$179.4 million from $168.6 million, although the Bank's holdings declined by some $27.2 million with a shift in holdings to the National Insurance Board and commercial banks. Post-tender transactions included rediscounts of $84.0 million, with $41.5 million representing purchases from commercial banks and $42.5 million from the public corporations. Sales totaled $34.3 million, all of which were to commercial banks.

The outstanding stock of Bahamas Government Registered Stocks (BGRS) increased by $9.0 million to $1,304.1 million, with annual maturities of $55.0 million as compared to new issues of $145.5 million. The maturity structure for existing bonds is situated between 1 to 20 years (2003 – 2022), bearing variable yields of Nassau Prime (6.00%) plus 0.125% - 1.500% per annum, while fixed yields vary from 5.75% to 10.50% per annum.

Outstanding Bridge Authority bonds remained at $28.0 million, with a maturity structure ranging from 2014 – 2029, and variable annual yields placed between 1.000% - 1.625% over commercial banks' Prime.

Relations with 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. Since being established in 1974, the reserve ratio has remained at 5.0%, with a minimum 80% to be held in deposit balances at the Central Bank. In line with growth in the Bahamian dollar deposit base, required reserves rose by 1.6% to $146.8 million at end-2002. Banks' excess balances at end-December 2002 stood at $83.5 million, representing some 36.3% of their total deposits held with the Central Bank and 75.1% higher than in 2001.

Banks also maintain balances at the Central Bank to facilitate the cheque clearing arrangements, which continue to be managed by the Central Bank. During 2002, the volume of cheques processed remained relatively constant at approximately 3.9 million; however, there was a 4.4% hike in associated value to $6,016.9 million. The Bank continues to use the Society Worldwide Interbank Financial Telecommunication (SWIFT) network to transmit high speed messages relative to international business.

Payments System Modernization

Recognizing the need to modernize the current manual system of check clearing and to provide a medium for the development of electronic commerce, compatible and compliant with international standards, the Central Bank advanced efforts toward reforming the payments system, with the ultimate goals of introducing an automated clearing house (ACH) system and a real time gross settlement system (RTGS). Although the current cheques and card systems are working satisfactorily, there is a clear consensus that a modernization initiative is required.

Guided by the technical assistance of experts from the World Bank, the Central Bank engaged the services of Electronic Payments & Commerce Ltd., a UK based firm, to act as the Project Coordinator on a short-term consultancy involving the preparation of a draft stocktaking report of the existing payment arrangements, and a draft vision and conceptual design of an optimal arrangement for The Bahamas that would address strategic issues relating to the proposed reforms. Key deliverables of the former exercise include a precision of specific business and banking objectives to be realized from the initiative, clear quantification of the desired benefits and associated costs of modernization, an examination of relevant legal and regulatory reform issues and an outline of the respective joint roles to be played by the Central Bank and other financial institutions. By the end of 2003, it is expected that the modernization initiative will have advanced to the implementation stage.

Success of the payments system reform initiative depends largely on the involvement of key stakeholders in the financial system. Towards this end, the Bank established a Payments System Task Force in 2001, made up of representatives of local banks and BISX.

Investment Currency Market

Through the Banking Department, the Bank continued to provide investment dollars to residents to facilitate, inter alia, overseas purchases of shares/securities and real estate. The premium bid and offered rates were unchanged at 20% and 25%, respectively. The Investment Currency Market opened the year with a balance of $1,872,815.36, and closed out at $1,339,604.65, after total purchases of $168,356.63 as against sales of $701,567.34.

Exchange Control

During 2002, the Exchange Control Department continued its efforts to improve the processing of applications for foreign exchange transactions in the official and Investment Currency markets and related matters, and was a key participant in the further liberalization of the foreign exchange regime in The Bahamas. The liberalization measures were encapsulated in increased delegation of authority to authorized dealers and relaxation of certain capital account restrictions, effective September 9, 2002. The most recent relaxation of Exchange Control measures prior to this occurred in 1993 and before this, in 1987 and 1977, respectively.

The current account measures simplify the process for the purchase of foreign currency by resident companies and individuals, permitting customers to apply directly to their banks (i.e. eliminating the need for initial application to the Central Bank) for a broad range of personal and business transactions (see Box 1). The liberalization of capital account restrictions, while less expansive, affected transactions related to emigration, employee stock option plans, bail bond payments and direct outward investments, where the economic benefit to The Bahamas is justified to the satisfaction of the Bank. Specifically, the amount of funds allowed to be transferred out of the country by emigrants was increased to $125,000 per family unit, per year. Changes also included the removal of the premium on residents' investments in employee share purchase/stock option plans, up to a limit of B$10,000 per individual per year for contributory ("cash") plans. No limit was applied for non-contributory ("non-cash") plans.

Further, for non-portfolio investments by residents in projects or undertakings abroad, where the transaction is deemed to be a "special criterion" case by the Bank, residents are now allowed to purchase foreign currency at no premium (i.e. from authorized dealers), up to the equivalent of B$1,000,000 per person or entity, within an overall limit of B$5,000,000 per transaction, accessible once every three years.

To ensure comprehensive dialogue on the changes, officials of the Bank met with representatives of banks located in New Providence as well as the northern Bahamas (Grand Bahama and Abaco), and used the opportunity to emphasize the importance of domestic financial institutions' adherence to the terms of their status as Authorized Dealers and/or Agents. The Department also drafted detailed guidance notes, which are to be released in 2003, to assist banks with the implementation of the increased delegated authority and improved its liaison with other regulatory units, recognizing the need for heightened awareness amid the increased requirements of recent financial sector legislation.

In an effort to enhance the data resources available for policymakers, the Department undertook a number of projects during 2002, including the creation of a database of private sector foreign currency loans, and a survey of the structure and management of pension plans of financial sector institutions in The Bahamas. The Department continued to support the Bank's analysis of external sector developments, monitoring current and capital outflows on a weekly basis, particularly in the areas of non-oil imports, oil imports, travel, investment income, government and public corporations services, credit card payments, insurance remittances, loans, purchases of property and shares, and other outward capital investments.

The number of Authorized Dealers operating at end-2002 was reduced by one, to eight (8), as Barclays Bank PLC and CIBC Bahamas Limited combined major aspects of their operations, to operate under a single licence in the name of FirstCaribbean International Bank (Bahamas) Limited. The number of Authorized Agents increased by one, to 18, with the granting of Authorized Agent status to Latin American Investment Bank Bahamas Limited. A listing of these institutions is contained in Box 2.

Box 1:
Increased Delegation of Authority to Commercial Banks
For the Provision of Foreign Currency for Current Payments
with effect from September 9, 2002

TRANSACTION	APPROVAL LIMIT
NON-CASH TRANSACTIONS (BANK DRAFTS AND WIRE TRANSFERS)	
Non-oil imports/Letters of Credit	$500,000 per transaction
Sundry payments (including commissions,registration of patents, subscriptions, theatrical/literary/music royalties, port expenses, alimony/maintenance, certain professional service charges)	$25,000 per transaction for virtually all categories
Educational payments (to institutions)	$25,000 per transaction
Medical expenses (to institutions)	Amount billed
Credit card payments	$25,000 per year, using personal allowance "dollar" cards issued by the Central Bank for presentation to Authorized Dealers
Non-cash gifts	$10,000 per year, using personal allowance "dollar" cards issued by the Central Bank for use during the year
Educational Support Payments & Miscellaneous Payments not categorized by the Bank	$2,500 per transaction
CASH TRANSACTIONS (REQUESTS FOR CASH OR TRAVELERS CHEQUES)	
Business travel	$50,000 per year, not including imports
Personal travel	$10,000 per trip

Box:2
List of Authorized Dealers and Agents
As At December 31, 2002

Authorized Dealers*

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

Authorized Agents**

Ansbacher (Bahamas) Limited ‡
Bank of Nova Scotia Trust Company (Bahamas) Limited, The
Bank of The Bahamas Trust Limited
Chase Manhattan Private Bank & Trust Co., Bahamas Ltd., The
CIBC Trust Company (Bahamas) Limited
Cititrust (Bahamas) Limited
Fidelity Merchant Bank & Trust Limited ‡
FirstCaribbean 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
Pictet Overseas Trust Corporation Limited
Royal Bank of Canada Trust Company (Bahamas) Limited §
SG Hambros Bank & Trust (Bahamas) Limited ‡
Thorand Bank & Trust Ltd.
UBS Trustees (Bahamas) Ltd.

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 (DIC) as at December 2002.

§ Member of the Deposit Insurance Corporation (DIC) as at February 2003.

Research

While continuing its core responsibilities of collecting, compiling, analyzing and disseminating economic and financial data, the Research Department also provided valuable input to monetary policy formulation within the Bank and assisted with the provision of technical advice to the Government and other external agencies. The Department also undertook its key responsibility for the production of the Bank's Quarterly Statistical Digest, Quarterly Economic Review and the Annual Report.

Highlights from the Department's 2002 research activities included a paper on capital account liberalization issues that was presented at the Caribbean Centre for Monetary Studies' annual Regional Monetary Studies Conference, held in Guyana in November. Preliminary research was concluded on capital markets development issues and analysis of public sector debt trends and work also continued on the development of analytical frameworks for forecasting the balance of payments and monetary and credit and trends, to support the policy deliberation of the Monetary Policy Committee.

Following steady progress in efforts to enhance data collection and compilation processes, the Department has established a Fall 2003 date for the completion of its FAME database project, that provides statistical coverage of money banking, real sector and public finance. The database will facilitate more efficient production reports for the Bank's publications, and provide quick and reliable access to key statistics for research purposes. Having participated in a pilot testing exercise in 2002, the Department expects to upgrade its public sector debt record management system in 2003, by installing a new version of Commonwealth Secretariat CS-DRMS 2000+ version software.

Under the Department's co-ordination, Phases II and III of the Bank's website development project were concluded, providing more dynamic content for users of the system, including news items, publication of various Central Bank research papers and reports, Bank Supervision regulatory guidance notes and reports, selected monetary and money credit statistics, and a Government Registered Stock database.

The Department continued its efforts to improve upon the quality and timeliness of economic and financial data reported to the Central Bank. A series of half-day workshops were hosted in September for the compiling officers of domestic and international banks, to familiarize them with compilation concepts on the various money and banking report forms, banking supervision reports and other financial sector surveys submitted to the Central Bank. Presentations were made by senior officers of the Research, Bank Supervision and Exchange Control Departments. Similar training exercises are planned for 2003 that will extend to the compilers of real sector and balance of payments data. Separate training modules are planned for New Providence and Grand Bahama, and selected visits along these lines will be arranged for compilers in the major Family Islands.

Bank Supervision

The primary focus of the Bank Supervision Department remained

"To promote and maintain the safety, soundness and integrity of the Bahamian banking and financial system, and institutions operating within the system, by maintaining supervisory practices and standards conducive to the orderly operation and development of the industry."

At the beginning of the year, the Department conducted an assessment of measures in the process of implementation, which had been decided as part of the 2000 policy revisions. These included the expansion and deepening of the on-site examination process, the discontinuation of managed or "shell" banks, the preparation and implementation of new sector regulations and guidelines, and the further development of bank supervision technical resources.

In 2002, the on-site examination function exceeded targets, as examiners completed a total of 116 first time, and 3 follow-up KYC-AML examinations versus 90 which had been planned. Further, the scope of on-site examinations expanded, commencing in August, 2001, to include safety and soundness issues of licensees.

In 2000, The Bahamas committed to the eradication of so-called "shell banks". In pursuance of this goal, the Department issued Physical Presence requirement guidelines in May 2001 and January 2002. As of December 2002, 203 licensed institutions had fully complied with the physical presence requirements, 43 had committed and taken steps to establish full physical presence; and 15 entities had submitted plans to wind down their operations, having taken the decision not to conform to these requirements. The transition process is being monitored closely in view of the 30th June, 2004 deadline for completion.

The Central Bank issued Corporate Covernance guidelines in December, 2001. Licensees have been advised that certifications, to the effect that they are in full compliance with the guidelines, would be required as of December 31, 2003. A review of the year's activities follows.

On-Site Inspections

The on-site examination program continued to play an active and important role in the Department's ongoing supervisory activities. The following schedule outlines the examinations carried out since the inception of the on-site examination programme in January 2001.

	Examinations	
Description	**2002**	**2001**
First Time Review		
International Banks		
Physical Presence	59	65
Managed	32	44
Retail Banks	2	2
Follow-up Examinations	9	4
Total Inspections	**102**	**115**

In August 2001, the scope of on-site examinations was expanded beyond "know-your-customer" and anti-money laundering policies, procedures and controls, to include an assessment of processes to control the full range of banking and trust activities, including risk management processes, and the effectiveness of the corporate governance regimes.

The on-site examination programme continues to provide the Department with valuable insights into the operating techniques and practices applied by licensees, and has assisted in the development of a better understanding of the trends and activities of the industry at large. The scope and objectives of each examination are directed at evaluating policies, procedures and controls against established "best practices", assessing conformity with the law, and with guidelines issued by the Central Bank. Identified weaknesses are brought to the attention of the licensee's management and board of directors, to cause prompt corrective action. A diligent monitoring program is carried-out to ensure follow through on recommended remedial action.

The examination methodology has been continuously updated to reflect, not only jurisdictional requirements, but also to take into consideration changes in international standards. A risk rating system, and risk focused approach to the onsite examinations, became fully operational in 2002. The result has been that onsite examination resources have been more effectively allocated, and those licensees deemed to be of potentially higher risk are now subject to more frequent reviews.

Industry response to the onsite examination program has generally been positive. The program has highlighted the need for licensees to have in place a sustainable and effective corporate governance regime. This regime should be complemented by timely and accurate information and an effective process of control over all segments of the licensee's operations.

To ensure adherence to firmly established quality control objectives and the sustainability of the onsite examination program, there continues to be ongoing emphasis on the training and integration of onsite and offsite personnel. In 2003, the full integration of off-site and onsite review/examination functions will be implemented.

Discontinuation of "Managed" Banking Institutions

In accordance with revised standards implemented at the end of 2000, no banking or trust entity may be licensed in The Bahamas unless strict minimum operating requirements are met. The requirements are detailed in the "Guidelines for the Minimum Physical Presence Requirements for Banks and Trust Companies Licensed in The Bahamas". The program to discontinue the operations of banks and trust companies without a full physical presence in The Bahamas is progressing in accordance with plans.

Unrestricted Licensees

Subsidiary and Stand-Alone Institutions. From among the 36 subsidiaries and 24 stand-alone entities that remained in the jurisdiction at the end of 2001, 26 licences were cancelled during 2002. As at December 2002, another 12 of these licensees had taken steps to establish full physical presence, leaving 22 entities still classified as "managed".

Branches. The remaining number of managed bank and/or trust branches of foreign banks decreased to 3 from 29, after 10 licences were revoked during 2002 and 16 had taken steps to establish physical presence.

Restricted Licensees

At the end of 2002, 35 restricted licensees remained in The Bahamas as compared to 47 in 2001, resulting from the cancellation of 12 licenses.

Bank Supervision Policy Unit

With the creation of a special, dedicated Policy Unit, the Bank Supervision Department added a third pillar to its supervisory and regulatory framework which previously included offsite surveillance and onsite inspection. The Unit's mandates are as follows:

- To develop proposed legislation, regulations, guidelines and internal procedures relating to regulation and supervision of banking institutions (coordinate and consolidate industry feedback on proposed legislation, regulations and guidelines and liaise with government departments responsible for writing legislation).

- To assess representations from licensees which involve legal precedents and or require rulings of a legal nature involving product or operational situations and make recommendations to the Governor to ensure that a consistent approach to precedents and rulings are provided to the industry, and maintain a database of approved rulings and precedents for use by the Department's staff when dealing with licensees.
- On the basis of research and analysis, to provide information to support regulatory and supervisory processes and where appropriate, make recommendations to enhance current legislation.
- To monitor and coordinate the licensing of banking institutions, to ensure conformity with domestic and international established rules and requirements. (Individual portfolio managers and senior officers of Bank Supervision Department will be responsible for the analysis of individual applications.)
- To coordinate the development and administration of M.O.U.'s with international regulatory bodies, coordinate international visits and assessments relating to Bank Supervision, and participate, when required and appropriate, in international fora to ensure that The Bahamas' position is well understood and acknowledged.

A Consultative Approach to Policy Development

The Central Bank is committed to a transparent and consultative approach to policy development. Industry participation is a valuable and necessary component in the development of supervisory policies, to ensure that they are consistent with international "best practices" while also being workable and realistic. Draft regulations, guidelines and proposed policies are made available to the industry and the public at large via the Central Bank's website and through direct dissemination to the industry participants, to ensure the widest possible consultation prior to implementation.

BSD Policy Work Programme

Guided by the Central Bank's Basle Core Principles Self Assessment and initial recommendations from the IMF Offshore Financial Centre Module 2 Assessment, new policy documentation was produced in the following areas, all of which can be downloaded from the Banks' website:

a. Comprehensive Guidelines for Licence Applicants and Enhanced Fit and Proper Requirements

- Revised due diligence requirements on approvals for directors and senior executives of licensees
- Draft Procedures for Assessing the Fitness and Propriety of Applicants for Regulated Functions
- Procedures for Reviewing Applications for Banking and Trust Licenses
- Guidelines on the Minimum Standards for Character and Financial References

b. Managed Licensee Guidelines

- Guidelines for The Requirements for the Transition of Managed Banks to Full Physical Presence
- Guidelines with Respect to the Requirements for the Continuation of the Management of Branches of Foreign Banks (Currently Without a Physical Presence)
- Guidelines with Respect to The Requirements for the Continuation of the Management of Restricted Banks and Trust Companies (Currently Without A Physical Presence)

c. Physical Presence Guidelines

- Guidelines for The Minimum Physical Presence Requirements For Banks and Trust Companies Licensed in The Bahamas

d. Prudential Regulations and Guidelines (These draft documents have been submitted for industry review and comments.)

- Large Exposures
- Liquidity Requirements
- New Appointments of Shareholders, Directors and Senior Executives
- Equity Investments by Licensees
- Payment of Dividends
- Foreign Currency Positions
- Acquisition of Shares in a Licensee

A dedicated Policy Unit is also allowing the Department to focus on strengthening its operational support infrastructure. One important initiative in this regard during 2002 was work on the computerization of prudential reporting forms, involving a conversion from paper to electronic-based format; and automation of the calculation of key prudential ratios, which also expands the information base of data to include loan provisions, non-performing loans, and more detailed reporting of certain categories of risk assets. The system, operating on a trial basis only, is scheduled for full implementation in 2003.

Going forward, the Policy Unit will focus on three key areas, namely (i) completion of a comprehensive set of risk management guidelines for licensees covering credit, market, interest rate and operational risks; (ii) development of detailed guidelines on capital adequacy and the New Basle Capital Accord and (iii) development of additional regulations dealing, among other things, with the relationship between licensees' auditors and the Central Bank and a determination of minimum disclosure requirements in this regard.

Through the Policy Review Committee, comprising the Governor, the Bank's Legal Counsel, the Inspector of Banks and Trust Companies, the Department's Manager and other technical staff, the Bank also expects to make recommendations to the Government on areas for amendments to the Financial Transactions Reporting Act 2000, taking account of constructive comments received from the industry and the recommendations from the Basle Committee/Offshore Group of Banking Supervisors' Customer Due Diligence Paper.

Consolidated Supervision

The Banks and Trust Companies Regulation Act, 2000, provides for robust cooperation in international cross border supervision. The Act provides, for example, that foreign supervisory authorities may conduct inspections of branches and subsidiaries of banks and trust companies incorporated in their jurisdictions. During 2002:

- The Swiss Federal Banking Commission (SBC) conducted on-site examinations of three

Box 3: Requests for Cooperation from Foreign Regulatory Authorities in 2002

Origin	**Number of Request(s)**
Bangladesh	1
Barbados	6
Bermuda	1
Belize	1
British Virgin Islands	1
Canada	2
Cayman Island	1
Channel Islands	4
Costa Rica	4
France	1
Gibraltar	3
Paraguay	1
Turks and Caicos Islands	1
St. Kitts	2
Switzerland	1
United States of America	9
Uruguay	1
Zimbabwe	1
Total Requests	**41**

subsidiaries/branches of Swiss banking institutions licensed in The Bahamas. The Central Bank of the Bahamas continues its active cooperation with the SBC on regulatory matters.

- The Peruvian supervisory authority carried out an inspection of a branch of a Bahamian licensee of Peruvian origin.
- The Costa Rican supervisory authorities (SUGEF) and the Bank Supervision Department commenced negotiations on the text of a memorandum of understanding on supervisory cooperation. This MOU is expected to be signed in March/April, 2003. It is anticipated that further MOUs will be entered into in 2003.

In September 2002, a team led by the Governor, and comprising the Director of Legal Affairs from the Bahamas Attorney General's Office and the Bank's Legal Counsel, met with representatives of the US Securities and Exchange Commission (SEC) in Washington, D.C. to review issues relating to information sharing and generally to strengthen cooperation between the Central Bank and the SEC. During the year, the Central Bank of The Bahamas further advanced its broad programme of cooperation with foreign regulatory authorities. Box 3 sets out the origin of requests received for cooperation during the year, which numbered 41. Assistance has been provided in respect of 23 of these, while investigations in respect of the remainder are ongoing.

Cooperation with International Regulatory Authorities

Basel Committee on Banking Supervision

The Basel Committee was established as the Committee on Banking Regulations and Supervisory Practices by the central bank governors of the Group of Ten (G-10) leading industrial countries at the end of 1974, in the aftermath of serious disturbances in international currency and banking markets. One important objective of the Committee's work has been to close gaps in international supervisory coverage in pursuit of two basic principles: that no foreign banking establishment should escape supervision; and that supervision should be adequate. In May 1983 the Committee finalised its document "Principles for the Supervision of Banks' Foreign Establishments" which set down the principles for sharing supervisory responsibility for banks' foreign branches, subsidiaries and joint ventures between host and parent (or home) supervisory authorities. This document came to be known as the "Concordat".

In April 1990, a Supplement to the Concordat was issued with the intention of improving the flow of prudential information between banking supervisors in different countries. In June 1992, certain principles of the Concordat were reformulated as Minimum Standards. Since 1992, The Bahamas has adopted the minimum capital requirements, as prescribed by the Basle Committee, as those which would apply to banks licensed in this jurisdiction.

International Conference of Banking Supervisors

The first meeting of the International Conference of Banking Supervisors was held in London in 1979, on the invitation of the Basle Committee, to supervisors from around the world, to discuss the "Concordat". This was a means of reaching out to, and influencing supervisory practices and standards among banking regulators from outside of the G-10 countries. This conference, which is held once every two years, took place in Cape Town, South Africa in September 2002. The discussion on Basel II (the proposed New Capital Accord) dominated the meeting, as regulators from 160 countries and territories sought answers on a range of issues relating to the structure and eventual implementation of Basel II.

Offshore Group of Banking Supervisors (OGBS)

The Offshore Group of Banking Supervisors was established in 1980 as a forum for supervisory cooperation between banking supervisors in offshore financial centres. Current members are: Aruba, The Bahamas, Bahrain, Barbados, Bermuda, Cayman Islands, Cyprus, Gibraltar, Guernsey, Hong Kong, Isle of Man, Jersey, Lebanon, Mauritius, Netherlands Antilles, Panama, Singapore and Vanuatu. The essential purposes of the Group are to coordinate the positions of offshore centres on issues relating to international supervisory cooperation, and to represent the interests of the offshore supervisory community within the Basel Committee.

The OGBS has co-chaired with the Basle Committee, working groups on minimum standards for cross-border supervision, shell banks, and customer due diligence. The Group meets annually to discuss issues and to formulate positions on international supervisory matters. The last meeting was in Cape Town, South Africa, in September 2002, when members adopted the Statement of Best Practices for Trust and Corporate Service Providers. The Bahamas participated as a member of the Working Group which formulated this Statement.

Financial Action Task Force (FATF)

In response to mounting concern over money laundering, the Financial Action Task Force (FATF) was established by the G-7 Summit held in Paris in 1989. The Task Force was given the responsibility of examining money laundering techniques and trends, reviewing action which had already been taken at a national or international level, and setting out measures to combat money laundering. In April 1990, the FATF issued a report containing a set of Forty Recommendations, providing a comprehensive framework of counter-measures to be adopted by countries in order to effectively combat money laundering.

The Central Bank of The Bahamas has represented The Bahamas in FATF typology meetings since 1999. During 2002, the Bank participated in FATF Working Group Meetings to review the Forty Recommendations. It is anticipated that new Recommendations would be agreed during 2003.

IMF Module II International Financial Sector Assessment

The IMF Module II Assessment weighs the adequacy of the international financial sector regulatory regime in place in a jurisdiction, against international standards as promulgated principally by the Basel Committee on Banking Supervision, the Financial Action Task Force, the IMF, the International Association of Insurance Supervisors and the International Organisation of Securities Commissions. During 2001, The Bahamas Government invited the IMF to conduct a Module II Assessment of the financial sector during the course of 2002.

A Team of four experts in anti-money laundering methodology, banking supervision and securities regulation conducted a series of pre-meetings with financial sector regulators and industry representatives during the week of January 14-18, 2002. An expanded team followed for the full assessment exercise which was conducted during October 21 - November 1, 2002. The Government is currently reviewing the draft report. A final report is expected later in 2003.

Counter-Terrorism

The Government is currently reviewing a comprehensive Terrorism Bill, with a view to implementation in 2003. The Attorney General's Office has solicited and received comments on the Bill from the Group of Financial Services Regulators and the public.

Regional Cooperation

Association of Supervisors of Banks of the Americas (ASBA)

The Association of Supervisors of Banks of the Americas (ASBA) was established in Mexico City in 1999 to provide its members with a forum to discuss common challenges, and to promote regional co-operation on matters related to consolidated supervision. ASBA promotes technical assistance and training in conjunction with the Financial Stability Forum, the U.S. Comptroller of the Currency, the U.S. Federal Reserve System, the Toronto Leadership Centre and the Centre for Monetary Studies of Latin America (CEMLA). During 2002, staff of the Bank Supervision Department attended four courses offered by ASBA on Problem Bank Resolution, Bank Examination and Analysis, Risk and Credit Management and the New Capital Accord.

The Bahamas currently serves, as Caribbean Director at ASBA, representing fourteen Caribbean Region member jurisdictions.

Caribbean Group of Banking Supervisors (CGBS)

The CGBS was established by the Caribbean Community (CARICOM) Central Bank Governors in 1980. The group expanded its membership to non-CARICOM states in 1984, when it invited United Kingdom dependent territories and the Dutch Netherlands Antilles, Puerto Rico and Bermuda to become members. The group has met annually since 1983 when the first conference was convened in Bridgetown, Barbados.

During 2002, the CGBS has sought to strengthen its institutional arrangements through the provision of permanent administrative facilities provided by the Bank of Jamaica, in Kingston.

The CGBS provides training for Caribbean bank supervisors, with the assistance of the U.S. Comptroller of the Currency, the U.S. Federal Reserve System and CEMLA. The Bahamas benefits significantly from the training opportunities offered by the CGBS.

At its 2002 annual conference held in Georgetown, Guyana, the Central Bank of The Bahamas made a presentation on the importance of corporate governance for banks and trust companies.

Caribbean Financial Action Task Force (CFATF)

The Caribbean Financial Task Force, which comprises those Caribbean States which have agreed to implement common counter-money laundering measures, was established in 1990. The main objective of the CFATF is to assist members in implementing and complying with measures to prevent and control money laundering in the region. CFATF, at the time of its founding, adopted nineteen Recommendations, complementary to the FATF Forty Recommendations, which together constitute the main body of measures to be observed by CFATF member states.

Represented by the Attorney General, The Bahamas assumed the chair of CFATF in October 2002. The Bahamas underwent a CFATF mutual evaluation during 2002. The report was presented and adopted at the October, 2002 Ministerial Council meetings held in Nassau, The Bahamas.

TABLE 13: 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 2001	126	83	20	5	9	103	4	3	3	356
Add Licenses issued in 2002	0	1	0	0	0	3	0	0	0	4
Less Licenses revoked in 2002	15	19	2	0	1	17	2	1	2	59
Sub Totals	**111**	**65**	**18**	**5**	**8**	**89**	**2**	**2**	**1**	**301**
Licenses upgraded or downgraded	-3	-2	0	1	1	0	2	1	0	0
December 2002	**108**	**63**	**18**	**6**	**9**	**89**	**4**	**3**	**1**	**301**

" B = Bank, T = Trust, T(Nom) = Nominee Trust"
"Note: Gross from License Fees during 2002 amounted to approximately $ 8,084,000"

Domestic Regulatory Cooperation

Group of Financial Services Regulators (GFSR)

Since 2001, the five regulators which oversee The Bahamas' financial services sector, have worked to harmonize their activities and to maximize regulatory cooperation across the sector. The regulators are:

The Central Bank of The Bahamas
The Securities Commission of The Bahamas
The Registrar of Insurance Companies
The Bahamas Compliance Commission
The Financial and Corporate Services Providers Unit
of the Ministry of Financial Services and Investments

In October 2002, the GFSR executed a Memorandum of Understanding (MOU), which formally provides for:

- Information sharing
- Inter-regulatory cooperation
- Harmonization of policies and practices.

The regulators have, under the terms of the MOU, started joint on-site examinations of licensees supervised by more than one agency. This cooperation is expected to intensify during 2003.

The GFSR has undertaken work to formalize the harmonization of operations in the principal areas shared by its member agencies.

On-going Supervisory Activities

During 2002, the Department carried out in-depth assessments of the ongoing financial positions of all active banks and trust companies, employing audited financial statements and quarterly supervisory and other reporting. The operating viability of licensees as going concerns and their compliance with the requirements concerning matters such as liquidity, solvency and risk exposures, represented an important focus of this work in the changing environment.

Throughout the year prudential discussions, as an adjunct to off-site financial and operational reviews, were held with senior management of 148 licensees. These discussions, concentrated, inter alia, on licensees' performance vis-à-vis peer institutions, as well as on business plans, risk management systems and procedures and capital adequacy.

The Department continues to require that persons who control and manage the business of a bank or trust company possess suitable credentials, and have the necessary experience for their responsibilities. Accordingly it vetted and approved the appointment of 130 directors and 160 senior officers during the year.

The Department continued to be vigilant in its practice of collecting and disseminating information on instances of attempted fraud or questionable activities brought to its attention by the targeted institution or other regulatory agencies. Commencing in the second quarter of 2002, warning notices were posted on the Bank's website cautioning the public regarding such matters brought to the Bank's attention.

During 2002, 4 new licenses were issued and 59 were revoked. The large number of revocations reflects the continuing objective of requiring licensees to achieve full physical presence or to cease operations in The Bahamas. At end-2002, the number of banks and trust companies licensed totaled 301.

The Central Bank has increasingly employed its website for the dissemination of information on matters related to The Bahamas' financial services sector. Proposed regulations and guidelines for industry consultation are posted on the Bank's website as well as notices to licensees and the general public of matters which are of importance to the sector. The response from the public has been positive. A number of parties have pursued dialogue with the Bank as a result of information made available on the Bank's website. The Bank expects to further improve these facilities during 2003.

Deposit Insurance

The Deposit Insurance Corporation (DIC) was established on 30th September, 1999, through the enactment of the Protection of Depositors Act, 1999, to provide partial reimbursement and recovery for creditors of the failed Gulf Union Bank Bahamas Limited, and a safety net for Bahamian dollar deposits in the event of default by a banking institution. The DIC is the Manager of the Deposit Insurance Fund established under Section 3 of the Act. The Fund is managed by a Board of Management appointed by the Minister of Finance.
Pursuant to Section 4 of the Act, membership in the Fund is compulsory for every institution carrying on banking business wholly or partly in Bahamian dollars, and licensed under the Banks and Trust Companies Regulation Act. The DIC enjoys a close relationship with the Central Bank and has power, among others, on the advice of the Bank, to:

1. levy authorised contributions and premiums on member institutions;
2. arrange for restructuring of a failed member, whether by merger with a financially sound member or otherwise; and
3. accumulate, manage and invest, so far as possible, in Government and quasi Government instruments and short term deposits; to borrow, by the issuance of bonds or otherwise, lend, give guarantees and acquire the undertaking of any institution which is in financial difficulty.

As at December 31, 2002, there were 12 member institutions of the Fund, comprising eight authorized delaers (Commercial Banks) and four authorized agents (one merchant bank and three other local financial institutions). A thirteenth institution was added to the membership in February 2003 (see Box 2).

Capitalization/Funding

In accordance with the Act, a compulsory initial contribution of $1.0 million was paid into the Corporation. Half of of this amount was injected by the Central Bank of The Bahamas as capital, and the remaining 50% as initial premium contributions by member institutions, based on their pro rata percentage share of all deposits insured by the DIC as at the November 30, 1999. Member institutions do not hold equity positions in the DIC.

The DIC is funded on an on-going basis by premiums, paid to the Fund by member institutions on an annual basis. Under the deposit insurance scheme, Bahamian Dollar deposits placed by customers with member banks and financial institutions are insured up to a maximum of $50,000 to each depositor, in each right and capacity, in each member institution.

International Association of Deposit Insurers

On May 6, 2002, the International Association of Deposit Insurers was formally established in Basle Switzerland, with the Deposit Insurance Corporation of The Bahamas being one of its 25 founding members. The Association consists of members, associates and observers, with members being countries or entities that already provide some form of deposit insurance or deposit guarantee arrangements.

The primary objectives of the Association are: (i) to contribute to the stability of financial systems by promoting international cooperation in the field of deposit insurance, and (ii) to encourage wide international contact among deposit insurers and other interested parties.

The DIC's involvement in the Association reflects the commitment of The Bahamas to the implementation of international best practices and standards, and to the promotion of a safe and sound domestic financial system.

Human Resources / Training

The Bank Supervision Department moved into its new accommodations in the TRIMARK Building, adjacent to the main Central Bank complex, in early January, 2002. The new, modern facility can accommodate up to sixty-five supervisors, the current complement being fifty-five.

Expenditure on training exceeded $200,000 in 2002, not including the cost of in-house programs and the value of the substantial technical preparation offered by other agencies at no cost to the Bank.

Staff participated in an array of exercises during 2002, to develop analytical, research and other bank supervision skills. These courses and seminars were organized by the Financial Stability Institute, the Association of Banking Supervisors of Latin America and the Caribbean, the Caribbean Group of Banking Supervisors, the U.S. Federal Reserve System, the World Bank, CEMLA, and The Bahamas Institute of Financial Services.

Seminars/Workshops

In August 2002, the Bank hosted an anti-money laundering/"know-your-customer" workshop for bank supervisors and the financial services industry. Particular focus was given to increasing participants' familiarity with the provisions and application of The Bahamas' new anti-money laundering law, and the Financial Transactions Reporting Act and its Regulations. In November, the Bank hosted a special workshop on the New Capital Accord (Basel II) for the Bank Supervision staff and regional regulators from eight countries and jurisdictions. This was followed by discussions with industry professionals to familiarize them with Basel II and its implications. Mr.

Charles Freeland, Deputy Secretary General of the Basel Committee was the facilitator.

Computer

The Bank has engaged the services of Emerging Technology Services (ETS) to develop an integrated work flow management, data capture and correspondence tracking system. The ETS Business in a Box solution is a Lotus Domino based software, which once customized, will allow the Bank to improve documentation and communication of captured information, particularly as regard external correspondence, on which the Bank is required to act. This system also will allow more centralized monitoring of the status of work being performed, provide for better security control on access to documents, and facilitate management summary reports on the flow of information. The Business in a Box solution will be used as a platform for providing online access to Human Resources services throughout the Bank. The document management or correspondence tracking feature, which is expected to add significant efficiencies in those operation areas where contact is most frequent with the public, is being piloted in the Bank Supervision and Exchange Control Departments, along with various Human Resources functions that are being introduced throughout the Bank. The testing phase for correspondence tracking is confined to recording the receipt and flow of documents, but subsequent phases of the project will provide for scanning and electronic archiving of images and files, accelerating the efficiency of document flow and management throughout the Bank.

The Computer Department has committed itself to implementing the recommendations of the Bank's Three-Year Technology Plan and the Information Technology Security Audit that were prepared by consultants during 2002. The Technology Plan focuses on reorganization of the Department, medium-term hardware and software needs and addresses the Bank's goal of automating the collection of information—particularly by the Bank Supervision and Research Departments—in a secure fashion, from external report compilers. The Security Audit addressed risks posed to the Bank's computer system, both from internal users and those arising from the increased usage of the Internet.

To more effectively respond to the needs of internal users, the Department established a Help Desk and a test lab environment during 2002. In its on-going software support role, the Department developed a new Dormant Accounts System, completed major enhancements and modifications to the Banking Department's Currency Systems and the Accounts Department's Budgeting and Bahamian dollar cheque Reconciliation Systems, and carried out routine software maintenance for other departments.

Among the infrastructural developments, a major upgrade was effected to the computer network; new network servers were acquired and the planned replacement of desktop computers was continued to ensure optimal performance of the network systems. Progress was also made in migrating personal computers to the Window XP platform and to upgrading of the IBM iSeries Operating System.

ADMINISTRATION

The Board

The Bank welcomed the continuation of the services of Dr. Pandora Johnson and Mr. Carleton Williams, CBE as Directors for the year 2002.

During January 2002, the Bank Supervision Department completed its relocation to the Trimark Building, situated on the corners of Market Streets and Trinity Place. The Bank has a three (3) year lease on the building from Trimark Property Holding, with an option for an additional year.

Overseas Meetings and Seminars

Governor Julian Francis attended a number of meetings overseas during the year, including regular representation of The Bahamas at the Panama meetings of the FTAA Negotiating Group on Competition Policy. He also attended the Commonwealth Heads of Governments Meeting (CHOGM) in Australia during March; the Bank of England and Bank for International Settlements (BIS) meetings during June and July, respectively; the Second Meeting of Prime Ministerial Sub-Committee on the CARICOM Single Market and Economy, in St. Lucia during August; the IMF/World Bank Meetings, in Washington, D.C. during September and the BIS Bi-Monthly Meeting of Central Bank Governors, in Mexico, during November.

In addition to regular travel to the FTAA Negotiating Group on Services meetings in Panama, Deputy Governor Wendy Craigg attended a training course hosted by Central Banking Publications in the United Kingdom in September, and in her capacity as a member of the Executive Committee of the Caribbean Centre for Monetary Studies, represented the Bank at the XXXIV Annual Monetary Studies Conference in Guyana in November.

Heads of Departments and other members of the Bank's management team also participated in numerous meetings and seminars in Latin America, the Caribbean, the United States and Europe.

Other Activities

Committee of CARICOM Central Bank Governors

During May and November, the Bank hosted the Regional CARICOM Central Bank Governors' Biannual Meetings in Nassau and Freeport, respectively. These meetings bring together governors as well as key policy officials from CARICOM member central banks, and observers and representatives from multilateral organizations, and promote cooperation among regional central banks on matters of common interest in the CARICOM area, including monetary policy, bank supervision, research and training. As Chairman during 2002, Governor Francis represented the Committee's views on policy and technical advice on economic matters to the CARICOM Finance Minister's Council on Finance and Planning (COFAP).

CARICOM Central Bank Games

The Central Bank has agreed to host the CARICOM Central Banks Fifth Biennial Games in New Providence over the Easter Holiday weekend, from April 17-22, 2003. The Regional Games were first held in 1987, on a mandate from governors of regional central banks, to encourage camaraderie among central bankers in an atmosphere of cultural exchange and friendly, spirited competition. The first games were hosted by the Central Bank of Trinidad and Tobago, with the participation of the Central Bank of Barbados, Bank of Jamaica and the Eastern Caribbean Central Bank. The Bahamas, Guyana, Belize and Suriname joined later games. An internal staff committee was constituted to oversee planning for the Games, with the assistance of Ministries of Tourism, Foreign Affairs, and Youth and Sports. Various local amateur sporting associations have also committed to officiating the events.

Public Education and the FTAA

The Central Bank of The Bahamas devoted significant resources during 2002 to educating the public on matters relating to globalization and The Bahamas' involvement in various trade liberalization initiatives. On January 8, 2002, the Bank also sponsored a lecture by Dr. Benjamin Barber of Rutgers University on "Globalization and the Current International Economic/Political Order". This was a timely presentation, given the uncertainty created in the aftermath of the events of September 11, 2001.

The Bank commissioned research on competition policy issues relevant to The Bahamas and CARICOM, and arranged a local seminar on Competition Law and Policy for January 2003.

These activities complemented the official involvement of senior officers, who represent the Government of The Bahamas at the FTAA negotiations. Governor Francis serves as an official negotiator for The Bahamas in the FTAA Negotiating Group on Competition Policy and attended regular meetings in Panama City, Panama, during 2002. Deputy Governor, Mrs. Wendy Craigg is The Bahamas' lead Negotiator for the FTAA's Negotiating Group on Services, and Co-Chairs The Bahamas Trade Commission, formed in December 2002, to advise The Bahamas Government on trade policy matters.

A second version of the draft FTAA Agreement was released to the public at the conclusion of the third negotiating phase of the FTAA, in October 2002. A number of principles guided this round of negotiations, including increased efforts to achieve consensus, transparency, and consistency of the text to WTO rules, as well as special attention being given to the needs of smaller economies. The FTAA negotiations will continue in the city of Puebla, Mexico, from April 2003 until the agreement is concluded in 2005. The Bahamas' participation in these negotiations is being coordinated through the CARICOM's Regional Negotiating Machinery, which spearheads the FTAA negotiations for all 14 Member States.

Public Relations

The Bank continued to support the promotion and development of Bahamian art and culture, hosting a total of 12 exhibitions during 2002, including the 19th Annual Art Competition & Exhibition in November.

Staff Training, Development and Relations

With continued emphasis on the development of a performance-based compensation system, during 2002, the Bank, in consultation with KPMG, made steady progress towards the completion of its ongoing Job Evaluation and Compensation Review Exercise. As part of that process, the Bank undertook an audit of the Performance Management Programme, to which several enhancements have subsequently been made.

As part of its continued commitment to maintaining a professional environment, and cultivating a skilled and highly motivated workforce, the Bank sponsored staff participation in a variety of technical courses, workshops and seminars, including 54 conducted overseas and 19 shorter programmes held locally. Similarly, with ongoing emphasis on academic upgrading, the Bank funded part-time tuition for all of its employees enrolled at The College of The Bahamas and other local training institutions, including the Bahamas Institute of Bankers. As part of its overall training plan, the Bank granted two in-service awards for full-time study at local institutions. Tuition for other academic programmes was subsidized and training in various computer applications was extended to a significant number of Bank employees.

In January, the Bank held its annual Long Service Awards Presentation Ceremony, which recognized employees who, in 2001, had achieved milestones of ten, twenty and thirty years of service.

In other staff developments, following months of negotiations, the Bank signed its first Industrial Agreement with the Union of Central Bankers on 15 January 2002. The Agreement is for a five-year period.

As at 31 December 2002, the Bank's staff complement was 232, comprising 210 permanent and 22 contract employees. Recruitment efforts focused primarily on capacity building in the Bank Supervision Department, where 6 of the 18 new employees were assigned. During the year, 14 employees retired; however, the Bank retained 9 of these individuals on a contractual basis. Six employees resigned in 2002, giving a turnover rate of 5.17%, compared to 5.31% for 2001.

Acknowledgements

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

MANAGEMENT'S REPORT

The Central Bank of The Bahamas' Financial Statements for the year ended December 31, 2002, along with comparative figures for 2001 are shown on pages 54 to 75.

Total assets of the Bank rose by $53.7 million (10.1%). Growth was concentrated in the $60.8 million (19.5%) expansion in external assets to $373.1 million, with an $81.9 million (184.2%) increase in foreign currency deposits to $126.3 million, and marketable securities reduced by $21.8 million (8.51%) to $234.4 million. "Other Assets" decreased by $6.6 million (3.2%) to $200.7 million, representing a $26.8 million (27.1%) reduction in Bahamas Government Treasury bills to $72.0 million, which outweighed both the $14.8 million (26.1%) growth in advances to Government to $71.8 million and the $4.6 million (13.6%) increase in Bahamas Government Registered Stock to $38.6 million.

The Bank's liabilities growth mainly occurred in demand obligations, which advanced by $50.7 million (11.9%) to $477.6 million. In particular, currency in active circulation rose by $2.68 million (1. 2%) to $221.2 million; deposits held for banks, by $41.5 million (22.0%) to $230.2 million; deposits by the Bahamas Government and its agencies, by $6.9 million (54.7%) to $19.4 million; "other liabilities", by $1.1 million (8.2%) to $13.9 million and capital and reserves, by $1.9 million (2.0%) to $95.1 million.

Operating income during 2002 grew by $1.5 million (6.1%) to $25.5 million, while expenses increased by $1.3 million (6.5%) to $20.6 million. Consequently, profits from operations improved slightly by $0.2 million (4.1%) to $4.9 million. As there were no adjustments for exchange rate gains or losses, the net profit for 2002 also stood at $4.9 million vis-à-vis $4.7 million last year.

THE CENTRAL BANK OF THE BAHAMAS

FINANCIAL STATEMENTS

DECEMBER 31, 2002

: : :

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 2002 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 2002 and the results of its operations, changes in capital and reserves and cash flows for the year then ended, in accordance with International Accounting Standards, and in all material respects, comply with the Central Bank of The Bahamas Act, 2000.

BDO Mann Judd

Pannell Kerr Forster

Chartered Accountants
Nassau, Bahamas
April 10, 2003

Balance Sheet

31 December 2002
(Expressed in Bahamian Dollars)

	Notes	2002 $	2001 $
ASSETS			
FIXED ASSETS	4	12,747,197	13,217,814
EXTERNAL ASSETS	5		
Foreign currency deposits		126,321,223	44,447,898
Marketable securities issued or guaranteed by foreign governments	6	234,420,418	256,237,765
Accrued interest receivable on foreign currency		3,840,808	3,760,157
International Monetary Fund	7		
Bahamas reserve tranche		8,481,962	7,840,663
Special drawing rights		103,844	112,181
		373,168,255	312,398,664
OTHER ASSETS			
Bahamas Government treasury bills	8	72,026,739	98,804,019
Bahamas Mortgage Corporation bonds	9	300,000	300,000
Advances to the Bahamas Government	10	71,786,900	56,945,016
Bahamas Government registered stocks	11	38,636,000	34,009,100
Loans to Bahamas Government agency	12	6,750,000	7,150,000
The Bridge Authority bonds	13	569,000	532,700
Accrued interest, receivables and other accounts		10,700,675	9,660,779
		200,769,314	207,401,614
		$586,684,766	$533,018,092

The notes on pages 61-75 form an integral part of these financial statements.

Balance Sheet

31 December 2002

(Expressed in Bahamian Dollars)

	Notes	2002 $	2001 $
LIABLITIES, CAPITAL AND RESERVES			
DEMAND LIABILITIES			
Notes in circulation		208,561,319	206,621,862
Coins in circulation		12,706,676	11,958,653
Deposits by commercial banks	14	230,212,189	188,735,996
Deposits by The Bahamas Government and Bahamas Government agencies		19,496,618	12,604,513
Deposits by international agencies	15	599,450	547,571
Accrued interest, payables and other accounts		3,078,894	3,978,633
Provision for payment into the Consolidated Fund	17	3,000,000	2,500,000
		477,655,146	426,947,228
OTHER LIABILITIES			
International Monetary Fund allocation of special drawing rights	16	13,907,884	12,856,345
CAPITAL AND RESERVES			
Authorised and fully paid capital		3,000,000	3,000,000
Exchange equalisation account	17	338,969	740,400
Contingency reserve	17	750,000	750,000
Other reserves	17	19,834,495	25,057,035
General reserves	17	71,198,272	63,667,084
		95,121,736	93,214,519
		$586,684,766	$533,018,092

The statements were approved by the Board of Directors and authorised for issue on April 10, 2003, and are signed on its behalf by:

Governor

Director

The notes on pages 61-75 form an integral part of these financial statements.

Statement of Profit

For the year ended 31 December 2002
(Expressed in Bahamian Dollars)

	Notes	2002 $	2001 $
INCOME	18	25,527,680	24,068,938
EXPENSES	19	20,620,463	19,353,400
NET PROFIT FOR THE YEAR		$4,907,217	$4,715,538

The notes on pages 61-75 form an integral part of these financial statements.

Statement of Changes in Capital and Reserves

For the year ended 31 December 2002
(Expressed in Bahamian Dollars)

	Authorised and fully paid capital $	Exchange equalisation account $	Contingency reserve $	Other reserves $	General reserves $	Total $
Balance at 1 January 2001	3,000,000	577,779	750,000	28,603,624	58,067,578	90,998,981
Net profit for the year	—	—	—	—	4,715,538	4,715,538
Transfer of unrealised exchange gains	—	162,621	—	—	(162,621)	—
Transfer from other reserves to general reserves	—	—	—	(3,546,589)	3,546,589	—
Transfer to Consolidated Fund	—	—	—	—	(2,500,000)	(2,500,000)
Balance at 31 December 2001	3,000,000	740,400	750,000	25,057,035	63,667,084	93,214,519
Net profit for the year	—	—	—	—	4,907,217	4,907,217
Transfer of unrealised exchange losses	—	(401,431)	—	—	401,431	—
Transfer from other reserves to general reserves	—	—	—	(5,222,540)	5,222,540	—
Proposed transfer to Consolidated Fund	—	—	—	—	(3,000,000)	(3,000,000)
Balance at 31 December 2002	$3,000,000	$338,969	$750,000	$19,834,495	$71,198,272	$95,121,736

The notes on pages 61-75 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2002
(Expressed in Bahamian Dollars)

	2002 $	2001 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net profit for the year	4,907,217	4,715,538
Adjustment for items not involving the movement of cash:		
Amortisation of premiums on marketable securities	(682,653)	(7,803,133)
Depreciation	1,121,391	1,016,589
Unrealised exchange gains	(369,128)	(32,303)
Interest income	(22,180,904)	(20,945,667)
Interest expense	295,928	450,637
Net cash used in operating activities before changes in operating assets and liabilities	(16,908,149)	(22,598,339)
(Increase)/decrease in operating assets:		
International Monetary Fund — Special Drawing Rights	418,577	(180,662)
Receivables and other accounts	(404,589)	(2,273,855)
(Decrease)/increase in operating liabilities:		
Notes in circulation	1,939,457	2,043,010
Coins in circulation	748,023	538,275
Deposits by commercial banks	41,476,193	43,891,034
Deposits by The Bahamas Government and Bahamas Government agencies	6,892,105	(10,102,567)
Deposits by international agencies	51,879	(314,130)
Payables and other accounts	(899,739)	1,274,418
Net cash provided by operating activities	$33,313,757	$12,277,184

The notes on pages 61-75 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2002
(Expressed in Bahamian Dollars)

	2002 $	2001 $
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	(39,500,000)	(95,000,000)
Proceeds from maturities of marketable securities	62,000,000	57,000,000
Purchases of fixed assets	(701,602)	(2,258,317)
Proceeds from sale of fixed assets	50,828	—
Purchases and rediscounts of Bahamas Government treasury bills	(283,204,280)	(393,747,305)
Proceeds from sales and maturities of Bahamas Government treasury bills	309,981,560	361,198,170
Advances to Bahamas Government	(28,768,292)	(13,926,408)
Proceeds from Bahamas Government	13,926,408	10,500,000
Purchase of The Bridge Authority bonds	(36,300)	(74,000)
Proceeds from sales of The Bridge Authority bonds	—	51,400
Purchases of Bahamas Government registered stocks	(38,482,100)	(51,093,100)
Proceeds from sales and maturities of Bahamas Government registered stocks	33,855,200	25,960,700
Repayments of loan to Bahamas Government agency	400,000	400,000
Interest received	21,842,084	21,354,080
Net cash provided/(used) by investing activities	51,363,506	(79,634,780)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment to the Consolidated Fund	(2,500,000)	(7,000,000)
Interest paid	(295,928)	(450,637)
Net cash used by financing activities	(2,795,928)	(7,450,637)
Net increase/(decrease) in cash and cash equivalents	81,881,335	(74,808,233)
Cash and cash equivalents at beginning of the year	44,484,636	119,292,869
Cash and cash equivalents at end of the year	$126,365,971	$44,484,636
Cash and cash equivalents are comprised of the following:		
Foreign currency deposits	126,321,223	$44,447,898
Cash on hand (included in accrued interest, receivables and other accounts)	44,748	36,738
	$126,365,971	$44,484,636

The notes on pages 61-75 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). As at 31 December 2002, the Bank had 257 (2001: 226) employees and 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 under the historical cost convention and in accordance with International Accounting Standards (IAS). The preparation of the financial statements in conformity with IAS 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.

3. ACCOUNTING POLICIES (cont)

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.

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 impairment.

Bahamas Government treasury bills

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

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.

3. ACCOUNTING POLICIES (cont)

Loans to Bahamas Governmet Agency

These 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.

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.

Notes to the Financial Statements

For the year ended 31 December 2002

4. FIXED ASSETS

	Land $	Buildings & renovations $	Office equipment $	Computer software $	Office furniture & fittings $	Other fixed assets $	Total $
COST							
1 January 2002	2,452,938	11,874,464	4,597,183	4,697,988	2,219,397	583,955	26,425,925
Additions	—	178,557	345,733	46,888	61,969	68,455	701,602
Disposals	—	—	(119,370)	—	—	(100,616)	(219,986)
Transfer	—	(457,045)	43,766	—	413,279	—	—
31 December 2002	2,452,938	11,595,976	4,867,312	4,744,876	2,694,645	551,794	26,907,541
DEPRECIATION							
1 January 2002	—	2,868,775	3,564,227	4,420,504	1,963,072	391,533	13,208,111
Charge for the year	—	228,354	555,537	111,727	165,179	60,594	1,121,391
Diposals	—	—	(117,909)	—	—	(51,249)	(169,158)
31 December 2002	—	3,097,129	4,001,855	4,532,231	2,128,251	400,878	14,160,344
NET BOOK VALUE							
31 December 2002	$ 2,452,938	$8,498,847	$865,457	$212,645	$566,394	$150,916	$12,747,197
31 December 2001	$2,452,938	$9,005,689	$1,032,956	$277,484	$256,325	$192,422	$13,217,814

Buildings and renovations include work in progress totalling $93,998 (2001: $1,034,134) which is not depreciated.

5. EXTERNAL ASSETS

External assets comprise 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 78.12% (2001: 73.17%) 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 2002 marketable securities held by the Bank which mature after 5 years constituted 1.50% (2001:Nil) of the Bank's external assets.

	2002 $	2001 $
Within 60 days	14,998,943	8,989,952
60 days to 1 year	48,351,473	58,194,223
1 to 5 years	165,490,805	189,053,590
After 5 years	5,579,197	—
	$234,420,418	$256,237,765

Market value of these securities at the balance sheet date was $242,532,825 (2001: $255,183,940). These securities bear interest at rates varying between 4.37% and 7.50% (2001: 4.25% 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 subscriptions payments as noted below:

	2002		2001	
	SDR (millions)	$	SDR (millions)	$
Quota	130.3	177,145,390	130.3	163,750,715
Subscription payments in promissory notes	(118.5)	(161,098,846)	(118.7)	(149,190,457)
Subscription payments in currency	(5.6)	(7,564,582)	(5.4)	(6,719,595)
Reserve tranche	SDR6.2million	$8,481,962	SDR6.2million	$7,840,663

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

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 $41,797,788 (2001: $41,724,018). 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 1.91% to 2.33% (2001: 2.22% to 4.60%).

8. BAHAMAS GOVERNMENT TREASURY BILLS

Bahamas Government Treasury Bills are discounted at rates ranging between 2.49% and 2.52% (2001: 1.39% and 3.50%) and mature as noted below:

	2002 $	2001 $
Within 60 days	19,202,497	50,188,788
60 days to 1 year	52,824,242	48,615,231
	$72,026,739	$98,804,019

9. BAHAMAS MORTGAGE CORPORATION BONDS

These bonds bear interest at a rate of 2.00% (2001: 2.00%) per annum below the Prime rate and mature as noted below:

	2002	2001
More than 5 years	$300,000	$300,000

10. 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 10.00% (2001:8.44%) of the lesser of such revenues. Of those advances $34,768,293 (2001: $19,926,408) bear interest at rates between 1.99% and 4.21% (2001: 2.90% and 4.90%). The remaining advances were interest free during both 2002 and 2001. The advances are repayable on demand.

11. 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 8.14% (2001: 7.97%) 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 2002 or 2001.

Bahamas Government Registered Stocks bear interest at rates ranging between 6.16% and 8.75% (2001: 5.15% and 9.50%) and mature as noted below:

	2002 $	2001 $
60 days to 1 year	500	10,200
1 to 5 years	2,900	192,900
More than 5 years	38,632,600	33,806,000
	$38,636,000	$34,009,100

12. LOANS TO BAHAMAS GOVERNMENT AGENCY

This balance is comprised of four 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% (2001: 2.00%) and mature as noted below:

	2002 $	2001 $
1 to 5 years	125,000	250,000
More than 5 years	6,625,000	6,900,000
	$6,750,000	$7,150,000

13. THE BRIDGE AUTHORITY BONDS

These bonds bear interest at rates ranging from 1.00% to 1.25% (2001: 1.00% to 1.25%) per annum over the Prime rate, and mature as noted below:

	2002	2001
More than 5 years	$569,000	$532,700

14. 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.

15. DEPOSITS BY INTERNATIONAL AGENCIES

The Bank is designated as the fiscal agency for the government of 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.

16. 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 1.91% and 2.33% (2001: 2.22% and 4.60%) and is repayable on demand.

17. 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 an amount of $5,222,540 should be transferred from other reserves to general reserves. In 2001 an amount of $3,546,589 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 $71,198,272 (2001: $63,667,084) equivalent to 15% (2001:15%) of demand liabilities prior to a provision of $3,000,000 (2001: $2,500,000) to be paid into the Consolidated Fund.

18. INCOME

	2002 $	2001 $
Interest income	22,180,904	20,945,667
Other operating income	3,346,776	3,123,271
	$25,527,680	$24,068,938

19. EXPENSES

	2002 $	2001 $
General & administrative expenses	9,695,074	10,587,761
Staff costs	9,508,070	7,298,413
Depreciation expense	1,121,391	1,016,589
Interest expense	295,928	450,637
	$20,620,463	$19,353,400

20. 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.

21. COMMITMENTS

The Bank is committed to rent office space under two operating leases. The Bank is committed to the following future payments under the lease agreements:

Years	$
2003	316,900
2004	76,078
	$392,978

22. CONCENTRATIONS OF ASSETS AND LIABILITIES

The Bank has the following concentrations of assets and liabilities.

	2002 %	2001 %
EXTERNAL ASSETS		
Geographic Region		
North America	91.00	95.95
Europe	5.66	0.22
Other	3.34	3.83
Industry		
Financial Sector	100.00	100.00

	2002 %	2001 %
OTHER ASSETS		
Geographic Region		
Bahamas	100.00	100.00
Industry		
Government Sector	100.00	100.00

	2002 %	2001 %
DEMAND LIABILITIES		
Geographic Region		
Bahamas	99.87	99.87
Other	0.13	0.13
Industry		
Financial Sector	100.00	100.00

	2002 %	2001 %
OTHER LIABILITIES		
Geographic Region		
International Agencies	100.00	100.00
Industry		
Financial Sector	100.00	100.00

23. 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 to fair value. The market value of those marketable securities is as stated in note 6.

24. MATURITIES OF FINANCIAL INSTRUMENTS

Except as otherwise stated in notes 6 to 16, the Bank's significant financial assets and liabilities mature within one year of the balance sheet date.

25. INTEREST RATE RISK

Except as otherwise stated in notes 6 to 16, the Bank's financial assets and liabilities do not carry any exposure to interest rate risk.

26. 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.

27. 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:

	2002 $	2001 $
Present value of funded obligations	(23,543,143)	(22,338,308)
Fair value of plan assets	26,901,042	26,257,936
	3,357,899	3,919,628
Unrecognised actuarial gains	(297,450)	(937,347)
Net assets calculated in accordance with paragraph 54 of International Accounting Standard 19	3,060,449	2,982,281
less: amounts not recognised as assets in accordance with paragraph 58 of International Accounting Standard 19	—	(988,591)
	$3,060,449	$1,993,690

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

	2002 $	2001 $
Current service cost	856,800	816,375
Interest cost	1,479,757	1,416,855
Expected return on plan assets	(1,800,448)	(1,707,536)
	536,109	525,694
less: decrease in amounts limited by paragraph 58 of International Accounting Standard 19	(988,591)	(1,379,381)
	$(452,482)	$(853,687)

27. DEFINED BENEFIT CONTRIBUTORY PENSION PLAN (cont'd)

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

	2002 $	2001 $
Net asset at beginning of the year	1,993,690	553,949
Net income recognised in the statement of profit	452,482	853,687
Employer contributions	614,277	586,054
Net asset at end of the year	$3,060,449	$1,993,690

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

	2002	2001
Discount rate	6.25%	6.75%
Expected return on plan assets	7.00%	7.00%
Expected rate of salary increase	7.30%	7.30%
Average expected remaining working lives of employees (years)	14.0	13.5

The actual return on plan assets during the year was $1,717,603 (2001: $1,731,331).

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