The Central Bank of The Bahamas

Annual Report & Statement of Accounts

For The Year Ended

December 31, 2001

The Central Bank of The Bahamas

Mission Statement

TO FOSTER

AN ENVIRONMENT

OF MONETARY STABILITY

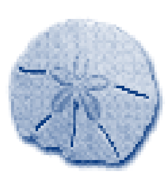
CONDUCIVE TO ECONOMIC

DEVELOPMENT, AND TO

ENSURE A STABLE AND

SOUND FINANCIAL

SYSTEM.



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

DIRECTORS AND SENIOR OFFICIALS
at December 31, 2001

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*

Henderson Wilson – *Senior Manager*

Iqbal Singh – Manager, *Bank Supervision*

Cecile M. Sherman – *Manager, Banking*

Bert A. Sherman – *Manager, Computer*

Wilton Bowleg – *Manager, Human Res*ources

Rochelle A. Deleveaux – *Legal Counsel*

Gerard Horton – *Sr. Deputy Manager, Exchange Control*

Claude Haylock – *Deputy Manager, Research*

The Hon. Sir William C. Allen, M.P.
Minister of Finance
Ministry of Finance
Sir Cecil Wallace-Whitfield Centre
Cable Beach
Nassau, Bahamas

April 19, 2002

Dear Minister:

In accordance with Section 30 (1) of the Central Bank of The Bahamas Act, 2000, I have the honour of forwarding to you, on behalf of the Board of Directors, the Annual Report of the Bank for the year 2001. Included with this report is the Annual Statement of Accounts of the Bank for the year.

Respectfully yours,

Julian W. Francis
Governor

ECONOMIC AND MONETARY REVIEW

Domestic Economic Developments

Domestic macroeconomic conditions deteriorated during 2001, as the slowdown which preceded the September 11 unprecedented attacks on the United States, was further aggravated by the attendant adverse implications for tourism output in the final four months of the year (see Table 1). Indications are that construction sector output was steady throughout most of the year, with significant support from increased bank financing of residential mortgages. However, fisheries output was hampered by a decline in the volume of the crawfish catch. As the economy's weakness impeded the government's revenue performance, the targeted level of budgetary consolidation was not achieved during FY2000/01, and a larger deficit was recorded for the first half of FY2001/02. In financial sector developments, a more restrictive stance by the Central Bank occasioned a moderation in domestic credit expansion, which nevertheless exceeded deposit base growth and influenced some tightening in average liquidity and deposit rates. On the external side, the impact of more subdued economic conditions combined with scaled down foreign investment activities, underpinned a significant reduction in the estimated current account deficit.

Growth in the monetary aggregates lagged the abated expansion in domestic credit, and was evidenced in a contraction in average free cash reserves of the banking system by a third to $56.1 million in 2001, and in average monthly excess liquid assets by almost two-thirds to $47.0 million. Consequent on this tightening and mounting pressures on external reserves, which intensified after September 11, the Central Bank imposed a direct freeze on financial institutions' outstanding loan balances, using the September 5 reported positions as the reference point, and temporarily relaxed foreign currency exposure limits for commercial banks. Tightened liquidity conditions also influenced a 27 basis point firming in the weighted average interest rate on deposits to 4.24%. However, the corresponding loan rate softened by an identical amount to 11.47%, for a 54 basis point narrowing in the average interest rate spread to 7.23%.

After trending lower to 9.3% in 2000, growth in the overall money supply (M3) slackened further to 4.7%, for a year-end stock of $3,717.1 million. In particular, the increase in currency in active circulation slowed to 1.4% from 2.0% in 2000, while demand balances contracted by 4.6%, after gaining 7.1% the year before. Accretions to savings deposits were appreciably reduced to 1.4% from 8.8% in 2000; albeit, gains in fixed balances moderated less sharply to 8.7% from 9.3%, capturing some transfers from demand deposits.

Growth in domestic credit at $406.4 million (9.5%) was below the $447.0 million (11.7%) expansion posted in 2000, and featured a strong shift in net lending towards the public sector. Reflecting a general deterioration in the fiscal situation, the advance in net credit to Government intensified to 23.1% from 2.6% last year, while claims on the public corporations rose by 3.8%, after registering a net repayment of 17.1% in 2000. Conversely, growth in private sector credit was almost halved to 7.8% ($283.5 million), dominated by an almost 75% contraction in net consumer borrowing to $46.8 million. Net lending for businesses and other private purposes also slowed, and banks recorded a stronger expansion in net lending for residential mortgages of $152.7 million (18.0%) vis-à-vis $110.6 million (15.0%) in the previous year. An examination by currency showed private sector credit expansion concentrated in local currency (88.0% of the increase), as compared to the previous year when significant net foreign currency advances were channeled into tourism sector projects.

After the fourth quarter loss, which was associated mainly with the September 11 attacks, total visitor arrivals

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

	1998	1999	2000	2001
Occupied Hotel Room Nights	(5.9)	13.3	5.3	(4.0)
Total Arrivals	(3.1)	9.0	15.2	(0.4)
Construction Starts - Value	(64.3)	(0.6)	19.0	(8.0)
Construction Completions - Value	187.9	(7.4)	(0.1)	8.0
Electricity Generation (mwh)	8.7	5.1	6.9	3.9
Water Consumption (gals.)	3.0	(0.1)	1.2	(1.4)
Retail Price Index	1.3	1.3	1.6	2.0

SOURCE: The Central Bank of The Bahamas

declined by 0.4% to 4.19 million during 2001, with the 2.9% fall-off in air arrivals to 1.4 million occurring alongside retrenched growth in sea arrivals of 1.0% to 2.7 million. This contrasted with the 2000 outcome when arrivals grew by 15.5%, led by a brisk 23.2% improvement in sea traffic, principally for New Providence and the Family Islands, and a 3.0% growth in air traffic. As regard expenditures, estimated receipts declined by 3.5% to $1.751 billion, following a 14.6% strengthening in 2000, on account of more robust pricing and hotel occupancy gains. Despite the 2.9% appreciation in average room rates to $153.03 per night, the 4.4% reduction in occupied room nights, largely stemming from the events of September 11 and their aftermath, caused estimated hotel room revenues to decline by 1.7%. As this occurred in the context of a 6.6% advance in available room nights, due in large measure to the re-opening of properties in Grand Bahama, the average hotel occupancy rate declined more markedly to 60.3% from 67.2% in 2000.

Construction output stabilized during the year, with a slowdown in new investments balanced against higher valuations on works carried over from the previous year. The value of building starts fell by 8.0% to $177.8 million in 2001, comprising respective declines of 11.0% and 0.6% for the residential and commercial sectors. However, the value of projects completed increased by 8.0% to $324.0 million, led by developments in Grand Bahama. Short-term prospects for the sector remain favourable, with the estimated level of planned outlays on new projects higher by 40.2% at $752.0 million, consisting of significant investments in upscale residential developments for New Providence (Paradise Island) alongside a broader recovery in Grand Bahama's residential and commercial sectors.

According to the Department of Fisheries, estimates of fisheries landings for 2001 decreased by 7.2% to 10.3 million pounds, with the associated value also lower by 19.9% at $64.8 million. Crawfish tails, which accounted for nearly 60% of the volume and 90% of the value, declined by 25.7% and 24.9%, respectively. Meanwhile, fisheries exports fell by 16.9% in volume and by 18.8% in value to $71.9 million, because of the fall-off in the crawfish catch.

On the fiscal front, the budgetary performance in the first six months of FY2001/02 resulted in a sizeable deficit of $69.9 million in contrast to the year-earlier surplus of $9.0 million. Impacted by the effects of September 11 an the observed slowing in domestic economic activity, total revenue was reduced by 8.2% to $416.6 million. Correspondingly, total expenditures were hiked by 9.4% to $486.5 million, owing to larger budgetary assistance to public corporations, boosted expenditures on port security measures and infrastructural repairs arising from Hurricane Michelle. Budgetary financing included net domestic and foreign currency borrowings of $56.5 million and $28.7 million, respectively. Adding the net financing requirements for January-June 2001, the Direct Charge on Government increased by 6.0% to $1.62 billion during 2001, while a 2.3% decrease in contingent liabilities contained the increase in the National Debt to 4.4% for a year-end stock of $1.97 billion.

Although mild, consumer price inflation, as measured by the average increase in the Retail Price Index, firmed slightly to 2.0% from 1.6% in 2000. This upturn stemmed from firmer price advances in the components for food & beverages and furniture & household operations, combined with increases in the average costs on recreation & entertainment services and "other" goods and services. The average rise in housing costs was stable, and more tempered advances were recorded for the remaining components.

On the external account, the current account deficit fell by two-thirds to $152.2 million during 2001, as sharply lower imports outdistanced a modest decrease in export receipts, for an almost one-fourth narrowing of the visible trade deficit to $998.3 million. However, the surplus on the services account contracted by 5.3% to $979.7 million—as the reduction in net tourism inflows was dampened by the lower net payment for foreign construction services. Although slightly firmer, net income remittances had a negligible influence on movements in the current account balance, as did the marginal-falloff in net transfer receipts.

The surplus on the capital and financial account was nearly halved to $215.7 million from $469.3 million in 2000, led by a sharp fall-off in foreign direct investments and other private capital inflows, particularly in respect of hotel sector developments. The combined net inflows for equity and loans waned to $88.3 million from $362.3 million, and net real estate inward investment contracted to $31.6 million from $106.2 million in 2000. In a partial offset, net short-term inflows through the banking system rose fourfold to $120.4 million, while the public sector's net external debt repayment decreased to $4.6 million from $11.4 million.

Fiscal Operations

2000/01 Performance

According to preliminary estimates, the fiscal consolidation originally envisaged for FY2000/01 was not achieved as the general slowdown in macroeconomic activity undermined revenue collections. Although the overall deficit was reduced to an estimated $21.8 million from $37.7 million in FY1999/00, it fell short of the virtually balanced position targeted. In particular, revenue receipts and grants were below projections by $33.0 million (3.3%) at $957.5 million, negating the $11.5 million (1.2%) compression in total expenditure to $979.3 million.

On the revenue side, import duties, which constituted 43.4% of total revenues, recorded the most significant contraction. Below targeted receipts were also registered for departure taxes—based on weaker than expected growth in tourism—property taxes, and for business and professional licence fees in the context of the enhanced financial sector legislative regime. Under expenditure, recurrent outlays lagged the budget by $16.7 million (1.9%), reflecting controls on the wage bill and more favourable interest rates on Government debt. The $8.3 million (8.4%) abatement in capital spending corresponded mainly to below budgeted outlays for education and public works and water supply projects, whereas transfers to non-financial public enterprises rose almost threefold from original provisions.
Budgetary financing during the fiscal year included net domestic and foreign currency borrowing of $4.0 million, utilization of cash balances and recourse to short-term advances from the banking system.

2001/02 BUDGET

The 2001/02 Budget, tabled before Parliament on May 30, 2001, underscored Government's commitment to secure improvements in the fiscal position, while maintaining priority spending in the areas of education, health and national security. Provisions were made for salary increases for health care professionals and a general salary review for teachers, alongside a further rationalization of the tax revenue base and continued strengthening of the tax administration process.

Premised on prospects for a stable economic growth outcome, revenue receipts and grants were budgeted to exceed the 2000/01 outcome by 4.0% at $1,029.7 million––outpacing a 3.3% hike in approved expenditures to $1,023.9 million (see Table 2). Tax collections were expected to increase by 4.7% to $940.0 million, despite tariff rationalization measures which included a reduction in duties on a range of products, to 35% from previous rates ranging between 40% to 210%. Non-tax income was projected to decline further by 11.1% to $77.3 million and multilateral grants and proceeds from the financial asset sale were set to yield a combined $12.3 million—up from $5.5 million in the previous fiscal year.

Total expenditure—excluding net lending—was budgeted to grow by $40.8 million (4.2%) to $1,002.6 million. Current expenditure of $893.8 million was expected to exceed the 2000/01 provision by $31.0 million (3.6%) and, combined with the projected $39.2 million gain in revenue receipts and grants, would permit a moderate improvement in the budgeted recurrent surplus to $46.2 million from $35.2 million. By broad economic classifications, the bulk of recurrent outlays was allocated for wages and salaries (43.8%), followed by subsidies and other transfers (24.2%), goods and services (21.1%) and interest payments (10.9%).

Capital spending was projected to rise by $9.7 million (9.8%) to $108.8 million. The 43.9% hike in provisions for public works—concentrated mainly in road development projects—contrasted with the 15.2% reduction in the education budget, and net lending to public corporations was placed 26.3% lower at $21.3 million.

The Government originally envisaged that the overall balance would revert to a surplus of $5.8 million from a

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

	FY1998/99	FY1999/00	FY2000/01		FY2001/02	
	Actual	Actual	Approved Estimates	Preliminary Estimates	Approved Estimates	Preliminary[1] Estimates
Government Revenue	803,768	918,493	990,495	957,508	1,029,668	416,558
Government Expenditure (i+ii+iii)	874,511	956,539	990,802	979,307	1,023,900	486,459
i) Recurrent Expenditure	747,325	817,755	862,798	846,137	893,832	408,515
ii) Capital Expenditure	94,893	106,686	99,050	90,711	108,764	39,213
iii) Net Lending	32,293	32,098	28,954	42,459	21,304	38,731
Surplus/(Deficit)	(70,743)	(38,046)	(307)	(21,799)	5,768	(69,901)

SOURCE: Ministry of Finance
Compiled according to the IMF's Government Finance Statistics format. [1]July - December, 2001.

$0.3 million deficit in FY2000/01. Budgetary financing for FY2001/02 was expected to include domestic borrowings totaling $34.3 million, with a further $48.9 million being sourced externally. An estimated $87.3 million was allocated for debt repayment, some $8.0 million (10.1%) more than in FY2000/01, which would translate into a decrease in the Direct Charge of approximately $4.1 million. Given a further programmed decrease in debt guaranteed for the public corporations, the National Debt was expected to contract by a larger amount during FY2001/02.

First 6 Months FY2001/02

The economic fundamentals which framed the Budget estimates have changed significantly since Parliament approved the provisions in May 2001. The events of September 11 exacerbated an already weakened trend in economic activity, transmitted mainly through a decline in tourism output, and hindered revenue growth.

Although some expenditure savings were realized from the temporary freeze in the wage bill and tighter controls on selected areas of recurrent spending, these measures were not sufficient to mitigate the deterioration in the revenue position and increased expenditure demands imposed by intensified promotional campaigns to stimulate tourism's recovery, infrastructural repairs following Hurricane Michelle in November, and required security upgrades to port facilities to counter heightened terrorism threats. In this context, the revised outcome for FY2001/02 envisages a deterioration in the overall balance to a deficit in excess of $80 million and a corresponding hike in financing requirements.

Preliminary estimates of budgetary operations for the first six months of the fiscal year showed a substantial deterioration in the overall position, consequent on the weakening macroeconomic situation in the aftermath of September 11, and significantly increased budgetary support to the public corporations. A 9.4% hike in outlays coincident with the 8.2% reduction in receipts, resulted in an estimated deficit of $69.9 million for the first six months of FY2001/02 in contrast to the previous year's $9.0 million surplus. Revenue collections and grants, at $416.6 million, approximated only 40.5% of budgeted appropriations, while total expenditure amounted to $486.5 million or 47.5% of the budget, and included a nearly doubled net lending component of $38.7 million.

Amid a lacklustre tourism performance and more restrictive monetary measures, tax collections contracted by $36.8 million, to comprise 92.5% of total receipts. The decline was concentrated in taxes on international trade and transactions, which fell by $10.4 million, followed by a $12.4 million drop in stamp taxes on financial and other transactions. Selective taxes on tourism services, dominated by gaming and hotel occupancy taxes, decreased by $1.9 million; departure taxes, by $3.9 million; business and professional licence fees, by $4.7 million on account of reduced IBC incorporations; motor vehicle taxes, by $1.7 million and property taxes, by $1.0 million.

Non-tax receipts, which receded by $0.4 million to represent the remaining 7.5% of total collections, featured a $7.5 million downturn in income from 'other sources' which includes dividend and profit receipts from public entities. The latter, combined with a $0.9 million fall-off in income from public enterprises, offsetted the $8.0 million rise in income from fines, forfeits, and administrative fees.

On the expenditure side, recurrent spending moved higher by an estimated $16.7 million (4.3%) to $408.5 million. Salary payments, which constituted 45.6% of current expenses, rose by $8.6 million (4.8%), and purchases of goods and services advanced by $2.1 million (3.1%). Subsidies and transfer payments were lower by $3.9 million (3.8%), and interest payments by $9.9 million (23.1%).

Capital spending, at $39.2 million for the first six months of FY2001/02, was $7.8 million (24.8%) above the comparative FY2000/01 outlay. Growth mainly corresponded to a $9.9 million advance in capital formation expenditures—largely on road infrastructure—and a $1.2 million outlay for acquisition of assets (land). Capital transfers to non-financial public enterprises declined by $3.3 million, but net lending to the public corporations intensified by $17.1 million (79.2%) to $38.7 million.

Budgetary financing consisted of domestic currency bond issues aggregating $91.3 million and external loan drawdowns of $13.6 million. Amortization payments totaled $58.7 million, of which $48.7 million (83.0%) went towards retiring local currency liabilities.

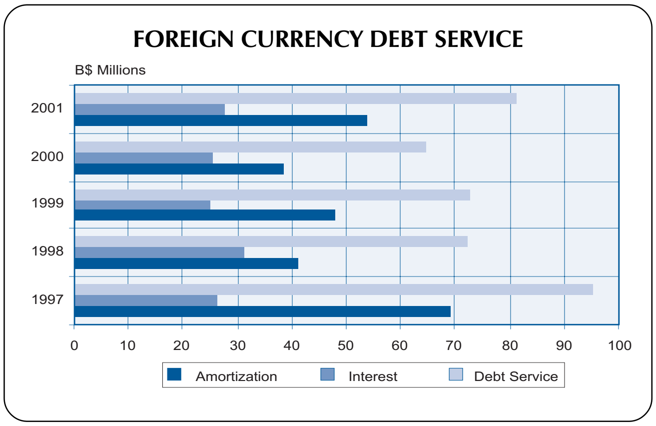
For calendar year 2001, the Direct Charge on Government advanced by $90.8 million (6.0%) to $1,607.1 million, as compared to a $4.8 million (0.3%) rise to $1,516.2 million in 2000. Bahamian dollar claims, which rose by 4.8% to $1,447.1 million, accounted for 90.0% of the total, while the foreign currency component grew by 74.2% for a lower share of 10.0%.

By creditor composition, the majority of the Bahamian dollar debt was held by public corporations, although reduced to 38.9% from 42.8% last year. Commercial banks followed with a relatively stable 25.8% share, as was the 22.0% proportion held by private and institutional investors. However, the Central Bank's share increased to 13.2% from 9.3%.

For 2001, Government's contingent liabilities fell by $8.6 million to $361.3 million. Consequently, the National Debt grew by a provisional $82.2 million (4.4%) to $1,968.3 million, after declining by $1.5 million (0.8%) in 2000.

Foreign Currency Debt

After contracting by $11.6 million (2.9%) in 2000, the stock of public sector foreign currency debt fell further by $4.2 million (1.1%) to a preliminary $388.2 million at end-2001 (see Table 3). Although the Government's component increased by $24.5 million to $160.0 million, this was countered by a $28.8 million net repayment on the public corporations' liabilities.



By creditor profile, multilateral institutions maintained the largest share of public foreign currency debt (61.5%), followed by commercial banks (25.3%), private capital markets (12.9%), and bilateral sources and offshore financial institutions combined (0.3%). An examination of the maturity structure suggested an average repayment term of 11 years, skewed towards the longer maturities. In particular, liabilities maturing within the next five years accounted for 4.5% of the total; those between 5-10 years, 34.8%; 10-15 years, 38.8% and over 15 years, 21.9%. As to the currency composition, the bulk of the debt was denominated in United States dollars (90.9%), with the second most important concentration being euros (8.5%), formerly European currency units.

Total debt service grew by $16.3 million to $80.7 million, with marginally increased interest payments of $27.4 million and a $15.2 million (39.8%) hike in principal amortization to $53.6 million. Given the more moderate advance in exports of goods and non-factor services, the corresponding debt service ratio firmed to 3.0% from 2.4% in 2000. For the Government, foreign currency servicing as a proportion of total revenues was mildly higher at 2.7%.

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

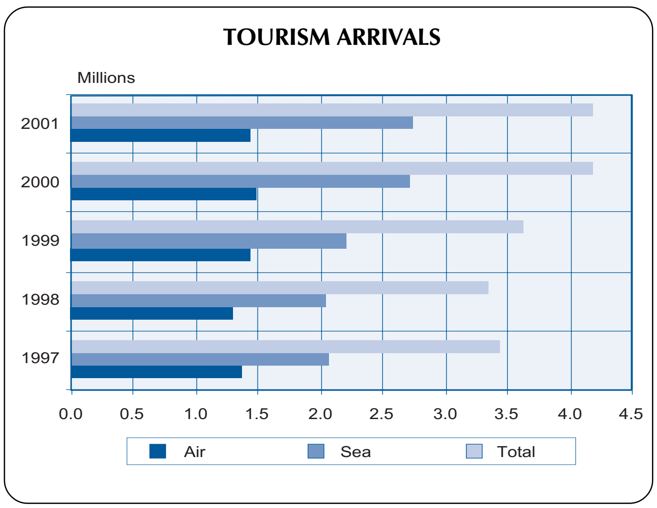
		1998p	1999p	2000p	2001p
A.	**EXTERNAL DEBT**	**339.4**	**353.0**	**367.9**	**345.4**
	i) Government	90.5	107.0	114.4	123.3
	ii) Public Corporations	248.9	246.0	253.5	222.1
	of Which Gov't Guaranteed	222.1	219.3	224.4	194.5
B.	**INTERNAL FOREIGN CURRENCY DEBT**	**55.2**	**37.3**	**24.5**	**42.9**
	i) Government	44.2	29.3	21.1	36.7
	ii) Public Corporations	11.0	8.0	3.4	6.2
	of Which Gov't Guaranteed	1.7	1.7	–	–
C.	**TOTAL FOREIGN CURRENCY DEBT**	**394.6**	**390.3**	**392.4**	**388.3**
D.	**DEBT SERVICE RATIO**	**3.8**	**3.0**	**2.5**	**n/a**

SOURCE: Treasury Accounts, Treasury Statistical Summary Printouts and Public Corporation's Quarterly Report.

Real Sector

Tourism

The slowdown in visitor growth and pricing gains evidenced in the first half of 2001 was exacerbated by the continued weakening of the United States' economy together with the negative impact of the September 11 attacks. However, despite double digit pricing discounts and contracted hotel occupancy levels, which featured a more than 25% decline in estimated visitor expenditure, the reduced seasonal significance of the fourth quarter translated into an annual expenditure decline of less than 4.0%. Looking forward, indications are that the projected losses for the peak 2002 season will dissipate more rapidly than initially expected, as the speed of the recovery in seasonal hotel occupancy rates, which guage stopover activity, is already pacing ahead of earlier forecasts. Nevertheless, pricing discounts are being eliminated at a significantly slower pace, situating the expenditure recovery below the corresponding revival in visitor volume.



Although arrivals growth in the first half of the year cushioned the fourth quarter 11.0% contraction, overall arrivals fell by 0.4% to 4.19 million, as compared to the 15.2% record advance to 4.20 million visitors in 2000 (see Table 4). Weakness was concentrated in air traffic which, driven by a fourth quarter loss of 22.8%, declined by 2.9% to 1.44 million, to contrast with a 3.0% gain in 2000. Sea arrivals were less impacted by the September 11 events, with the fourth quarter 5.6% decline curtailing the annual gain to 1.0% for 2.75 million passengers. However, this performance contrasted with the robust 23.2% growth achieved in 2000, when New Providence and the Family Islands benefited from both an increased number of vessels and port calls.

On a destination basis, air arrivals to New Providence, which exhibited weakness before the onset of the crisis, recorded the sharpest decline of 4.0%, although a tapered 4.4% gain in sea traffic relative to 2000 sustained marginal overall growth of 1.2% (see Table 5). Conversely, Grand Bahama's total loss of 5.9% was reflected in an intensified decrease in sea arrivals of 10.8% and sharply constrained air traffic growth of 1.0%. Meanwhile, the Family Islands 1.0% overall contraction was marked by a less intense reduction in the air component of 2.4%, although the marginal downturn in sea visitors contrasted with a significant upsurge in 2000.

Preliminary and partial information on hotel occupancy rates and visitor arrivals suggested a 3.5% decline in expenditure, to an estimated $1.814 billion for 2001. Decreased room night sales (4.4%) eclipsed an abated 2.9% appreciation in average nightly room rates to $153.03, and caused estimated room revenues to decline by 1.7%. As this occurred amid a 6.6% boost in available capacity, largely influenced by Grand Bahama's 15.4% restoration of room inventory, the average occupancy rate was reduced to 60.3% from 67.2%.

TABLE 4: Visitor Arrivals

Period	Air Arrivals	% Change	Sea Arrivals	% Change	Total	% Change	Occupied Room Nights	% Change
1998	1,304,851	(4.8)	2,042,814	(2.1)	3,347,665	(3.1)	1,848,092	(5.9)
1999	1,438,887	10.1	2,209,241	8.2	3,648,291	9.0	2,097,026	13.3
2000	1,481,545	3.0	2,722,286	23.2	4,203,831	15.2	2,201,825	5.3
2001	1,439,030	-3.0	2,749,251	1.0	4,188,281	-0.4	2,104,643	-4.0

SOURCE: Ministry of Tourism.

TABLE 5: Growth In Tourist Arrivals (% Change)

Ports of Entry	1998	1999	2000	2001	2001 Market Share
Nassau/Paradise Island	(2.3)	20.9	17.6	1.2	64.9
Grand Bahama	(5.9)	(17.4)	1.1	(5.9)	15.2
Rest of Family Islands	(1.9)	7.2	21.2	(1.0)	19.9
TOTAL	**(3.1)**	**9.0**	**15.2**	**(0.4)**	**100.0**

SOURCE: Ministry of Tourism.

On a destination basis, average room rates for New Providence were generally unchanged at $171.27 but, when combined with lower occupancy levels, produced a 4.3% contraction in revenues. Average room rates in Grand Bahama staged a marked recovery of 30.1% to $83.16 per night, to secure a 28.3% boost in revenues. However, estimated revenues for Family Island properties declined by 6.5%, as occupancy losses eclipsed a 4.3% increase in the average nightly room rate to $162.17.

Construction

Provisional estimates for 2001 suggested broadly levelled trends in construction sector output, with an elevated level of project continuation from the previous period counter-balanced by reduced investments in new projects (see Table 6). Activity continued to be principally supported by strong underlying demand for residential housing, amid marginally softened mortgage rates, and marked by further strengthening in housing demand and commercial investments in Grand Bahama. By contrast, commercial activity contracted further from the record levels posted in recent years, which was concentrated in capacity expansion in the tourism sector. Data on planned future investments signal a continuation of this mix of activity into 2002, as evidenced by the significant upturn in residential approvals, particularly for upscale, second home developments in New Providence (Paradise Island).

Brisk support for the domestic housing sector was evidenced in a $119.0 million (22.0%) increase in outstanding residential mortgage lending for new construction and building repairs among banks, insurance companies and the Bahamas Mortgage Corporation, and a softening in the average lending rate on these facilities to 9.0% from 9.4% in 2000.

The value of building projects started during the year fell by 8.0% to $177.9 million, alongside a 5.1% decline in number to 1,010. Both residential and commercial projects contracted by 11.0% and 0.6% to $144.7 million and $30.4 million, respectively. While the number of housing projects decreased by 4.4% to 933, commercial units decreased by 11.4% to 71. In the public sector, the value of projects started was higher at $2.8 million from $0.2 million in 2000, representing 6 projects compared to a single undertaking last year.

Building completions gained in value by 8.0% to $324.0 million, and in number by 12.3% to 1,706 units. Robust activity in Grand Bahama underpinned a 29.7% appreciation in residential completions to $210.9 million, corresponding to a 13.6% hike in number of units to 1,530. This more than offset the 20.6% decline in commercial valuations to $103.4 million, although based on a 3.0% rise in number to 172. Meanwhile, public sector building completions were valued more than a third higher at $9.7 million, representing 4 relative to 5 projects last year.

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

	1998	1999	2000	2001
Building Permits				
Number	2,923	3,144	3,208	3,053
Value	472,177	641,815	536,586	752,030
Building Starts				
Number	1,234	1,065	1,064	1,010
Value	163,520	162,496	193,443	177,907
of which:				
i) Residential				
Number	1,138	976	976	933
Value	133,276	133,450	162,679	144,713
ii) Commercial				
Number	96	89	87	71
Value	30,244	29,046	30,549	30,358
iii) Public				
Number	-	-	1	6
Value	-	-	215	2,836
Building Completions				
Number	1,371	1,095	1,519	1,706
Value	492,318	455,799	299,982	323,957

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

Indications of future activity, as signalled by building permits issued, strengthened markedly over the first three quarters of 2001, with annual valuations higher by a third at $752.0 million. Upscale residential developments planned for New Providence (Paradise Island), combined with projects in Grand Bahama, boosted the value of housing permits by almost a third to $445.3 million, vis-à-vis a corresponding 23.3% decline in the number of permits to 2,618. Commercial permits appreciated in value by 81.0% to $294.7 million, although declining by 12.7% to 426 units. Conversely, public sector permits contracted in value by more than two-thirds to $12.1 million, numbering 9 units.

Fisheries

Estimates compiled by the Department of Fisheries suggested a decline in fisheries output for 2001, primarily as a result of a contraction in lobster landings and sales. The volume of products landed decreased by 7.2% to 10.3 million pounds, with a 19.9% fall-off in value to $64.8 million. Crawfish catch, although accounting for 60.0% of the weight, represented 87.3% of estimated value. This represented a decline on both accounts, by a quarter to 4.9 million pounds valued at $53.0 million, and an average gain of only 10 cents to $10.75 per pound. Scalefish, at 25.7% of landings and 6.2% of value, increased by nearly one-third in both cases, to 3.8 million pounds priced at $6.8 million. However, the fresh conch catch was lower in weight by 1.4% and in value by 2.0% to $4.3 million.

Earnings from fisheries exports fell by an estimated 18.8% to $71.9 million, led by a 20.2% contraction to $67.7 million for crawfish sales which fetched a slightly higher average price of $13.66 per pound. Conch exports continued to recover, with earnings up by 42.2% to $1.4 million, supported by a 1.9% price hike to $3.84 per pound. Increased earnings were also recorded for sponges and stone crabs exports.

Prices

Consistent with general condition prevailing in the United States and the global environment at large, the inflation situation was relatively mild throughout 2001. Consumer price inflation, as measured by changes in the average Retail Price Index, advanced moderately to 2.0% from 1.6% in 2000 (see Table 7). Higher prices for food & beverages (2.1%), furniture & household operations (2.6%), recreation & entertainment services (3.5%) and "other" goods and services (5.5%) were the main sources of upward pressure on the All Items Index. Meanwhile, the average increase in housing costs was stable (0.2%), with some moderation, otherwise, in the rate of increase for clothing & footwear (0.5%), medical care & health (1.7%), transportation & communication (1.6%) and education (7.7%) costs.

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

(Oct./Nov. 1995 = 100)

Group	Weight	1998	1999	2000	2001
Food & Beverage	138.3	2.2	0.2	1.6	2.1
Clothing & Footwear	58.9	1.7	0.9	0.7	0.5
Housing	328.2	(0.1)	0.8	0.2	0.2
Furniture & Household Operation	88.7	1.1	1.3	2.0	2.6
Medical Care & Health	44.1	2.5	2.0	2.4	1.7
Transportation & Communication	148.4	0.7	(1.5)	2.3	1.6
Recreation, Entertainment & Services	48.7	2.1	4.3	(0.9)	3.5
Education	53.1	9.7	12.2	11.9	7.7
Other Goods & Services	91.6	0.5	1.3	(0.4)	5.5
ALL ITEMS	1,000.0	1.3	1.3	1.6	2.0

SOURCE: Department of Statistics.

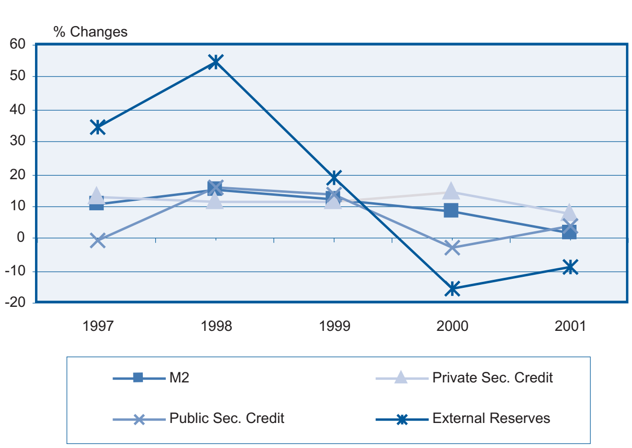
Money, Credit and Interest Rates

Overview

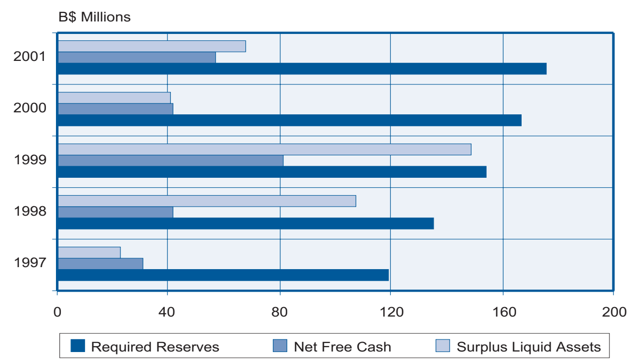
Money and credit conditions during 2001 evoked a conservative policy response from the Central Bank, as the events of September 11 exaggerated an already weakening trend observed in economic activity. Earlier moral suasion initiatives to slow private sector credit growth were reinforced by a direct freeze on credit growth and a more accommodative posture towards short-term foreign currency inflows through the banking system to support the external reserve position and to ensure stable liquidity conditions in the banking system. On July 20, 2001, banks were cautioned to strictly observe prudent standards of credit appraisal, valuation of collateral and to pay close attention to the credit worthiness of borrowers. Subsequent to the events of September 11 and their aftermath, banks were directed to maintain outstanding loans and advances at their September 5 levels reported to the Central Bank, accommodating new credit only to the extent of resources provided from loan repayments. As the external sector exerted a contractionary impact on domestic liquidity, the Bank, on November 30, sanctioned a temporary extension in commercial banks' Bahamian Dollar Open Position limit, beyond the existing mandated $0.5 million, and up to a maximum limit of $5.5 million.

In the context of these developments and in a continuation of trends observed in 2000, both money and domestic credit expansion slowed, but net foreign assets and bank liquidity were correspondingly reduced. Interest rate movements were mixed as average deposit rates firmed in response to tightened liquidity, but lending rates softened on balance.

MONETARY DEVELOPMENTS



BANK LIQUIDITY



Liquidity

Average monthly free cash balances were lower at $56.1 million from $86.5 million in 2000, but year-end liquidity was higher by a third at $56.5 million—influenced partly by increased Central Bank credit to Government during the last four months of the year, the more accommodative policy position on bank's foreign exchange exposures and the general slowing in credit expansion. Consequently, the closing position corresponded to an estimated 1.6% of Bahamian dollar deposit liabilities as compared to 1.2% in 2000. On a monthly basis, the broader surplus liquid assets declined by almost two-thirds to an average $47.0 million, which was equivalent to an average 8.3% of the statutory minimum as compared to a more robust 23.0% in the previous year.

Foreign Exchange

In foreign exchange transactions, the reduction in the Central Bank's net foreign currency sale, to $43.6 million from $90.5 million in 2000, reflected a combination of the more restrained growth in private sector credit, the marked slowing in net foreign investment inflows and higher public sector demand. Overall, total sales were cut by 4.5% to $556.4 million, while purchases increased by 4.2% to $512.8 million (see Table 8).

As sales contracted sharply, the Bank's net purchase from commercial banks advanced to $120.3 million from $56.5 million last year. However, the Bank had higher net

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

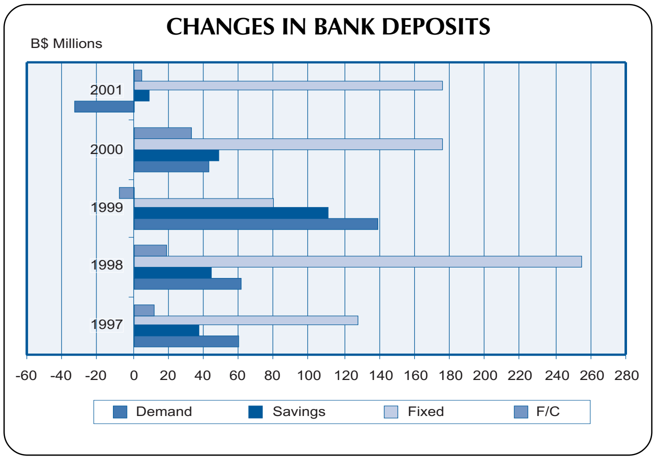
Period	Commercial Bank Purchases	Commercial Bank Sales	Commercial Bank Net Purchase/ (Sale)	Government Purchases	Government Sales	Government Net Purchase/ (Sale)	Other Purchases	Other Sales	Other Net Purchase/ Sale	Total Purchases	Total Sales	Total Net Purchase/ (Sale)
Qtr.I	93,040	30,161	62,879	21,885	33,095	(11,210)	2,728	21,969	(19,241)	117,653	85,225	32,428
Qtr.I	102,040	34,232	67,808	22,876	31,446	(8,570)	7,948	21,357	(13,409)	132,864	87,035	45,829
Qtr.II	100,948	31,500	69,448	16,998	31,302	(14,304)	18,640	20,772	(2,132)	136,586	83,574	53,012
Qtr.III	79,742	35,364	44,378	16,896	30,711	(13,815)	7,217	33,635	(26,418)	103,855	99,710	4,145
Qtr.IV	63,611	37,062	26,549	18,024	23,918	(5,894)	7,748	24,911	(17,163)	89,383	85,891	3,492
1998	**346,341**	**138,158**	**208,183**	**74,794**	**17,377**	**(42,583)**	**41,553**	**100,675**	**(59,122)**	**462,688**	**356,210**	**106,478**
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**	**(127,278)**	**512,791**	**556,411**	**(43,620)**

SOURCE: The Central Bank of The Bahamas.

sales to Government and others, of 5.8% and 13.3% to $36.6 million and $127.4 million, respectively. Lower average investment balances and foreign interest yields caused investment income on external reserves to decline to $13.8 million from $29.4 million in 2000.

Against this background, the stock of external reserves fell by 8.8% to $312.4 million at end-2001, peaking in May at $392.4 million before declining to $347.4 million at end-August. Following September 11, the combined impact of credit restraint measures and short-term inflows by

CHANGES IN BANK DEPOSITS



commercial banks, assisted in stemming the remaining seasonal fall-off to $35.0 million, which was below last year's $91.1 million decline.

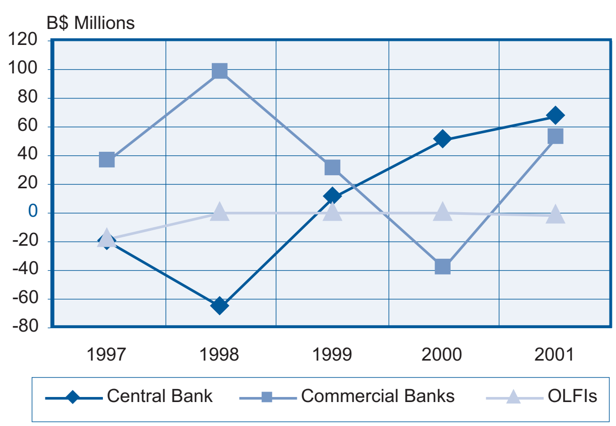
Money Supply

Consistent with the weakened economic situation, growth in the overall money supply (M3) slowed for the third consecutive year, to 4.7% from 9.3% in 2000 and 11.8% in 1999. Narrow money (M1), which increased by 6.1% in 2000, declined by 3.4%. A smaller 1.4% hike in the currency component was accompanied by a 4.6% downturn in transaction balances vis-à-vis a 7.1% gain in 2000—partly mirroring a shift in private deposits to other balances amid fewer capital market investment opportunities.

Similarly, the rate of expansion in broad money (M2) was more than halved to 4.7%, with growth in savings deposits significantly tapered to 1.4% from 8.8% in 2000. Fixed balances advanced at a slightly slower pace of 8.7%, although moderately higher in nominal terms at $180.3 million. Accounting for a much smaller rise (6.4%) in residents' foreign currency deposits, overall money (M3) growth registered almost 50 percent lower at $166.0 million, for a year-end stock of $3.72 billion.

By currency composition, the Bahamian dollar component constituted 97.5% of total money, and foreign currency, the remaining 2.5%. In turn, fixed deposits remained the largest component of money (60.4%); next was demand deposits (16.8%), savings deposits (16.2%) and currency in the hands of the public (4.1%). Private individuals dominated the depositor profile with 55.8% of the total base, followed by business firms with 22.1%, other private depositors, 6.5% and private financial institutions, 4.2%. Further analysis showed that some 90.9% of all accounts were valued under $10,000, but represented only 10.9% of the aggregate value. In contrast, individual balances valued at over $50,000 accounted for 73.7% of the total value, but only 2.7% of the aggregate number. Some

CHANGES IN NET CLAIMS ON GOVERNMENT



5.6% of the total was represented by accounts valued between $10,001 - $20,000, followed by the $20,001 - $30,000 range with 4.1%; 3.0% for those between $30,001 - $40,000; and 2.7% for accounts ranging between $40,001 - $50,000.

Domestic Credit

After incremental firming to 11.7% in 2000, domestic credit expansion slackened to 9.5% in 2001, with significant moderation in the private sector credit component (see Table 9). By currency, the Bahamian dollar component, which constituted 88.3% of the outstanding amount and 87.2% of the total advance, rose at a slower 9.4% pace vis-à-vis 12.9% in 2000. However, foreign currency credit growth firmed to 10.6% from 3.3% last year.

Reflecting less favourable operating positions, banking sector claims on the public sector increased by 18.9% in contrast to the 2.5% hike in the net repayment for 2000. In particular, Government's net liabilities were sharply extended to $117.4 million (23.1%) from $13.1 million (2.6%), while the public corporations had borrowings of $5.5 million (3.8%), following a $29.6 million (17.1%) reduction in liabilities for 2000.

Growth in private sector credit was almost halved to $283.5 million (7.8%) from $463.5 million (14.7%) in 2000, as sharply curtailed net lending to the business sector was reinforced by an approximate two-thirds contraction in net consumer borrowing to $46.8 million (3.3%). By contrast, net lending for mortgages and other housing developments maintained a strongly expansionary trend--firming by 18.0% to $152.7 million.

A more detailed analysis of private sector credit revealed that personal loans, which accounted for the largest share (65.5%), rose by 11.1% ($253.8 million) vis-à-vis the 11.3% advance in 2000 (see Table 10). Notable net lending was also recorded for distribution ($43.6 million), construction ($28.4 million) and private financial institutions ($16.2 million), with sizeable net repayments recorded for manufacturing ($25.7 million) and miscellaneous ($50.0 million) loans.

A breakdown of consumer lending indicated that the bulk of new credit was extended for miscellaneous purposes ($27.1 million), followed by education ($16.6 million), credit cards ($6.5 million), home improvement ($4.9 million), land purchases ($3.6 million) and debt consolidation ($3.2 million). Conversely, significant net repayments were registered for private cars ($13.9 million) and travel balances ($1.3 million).

Interest Rates

In interest rate developments, the spread between the average loan and deposit rates narrowed to 7.23% from 7.77% in 2000, corresponding to a 27 basis point firming to 4.24% in commercial banks' deposit rate and an equivalent decline to 11.47% in the counterpart lending rate. Benchmark rates—commercial banks' Prime and the Central Bank's Discount Rate—remained unchanged at 6.00% and 5.75%, respectively. The average 90-day Treasury bill rate advanced to 1.94% from 0.99% in 2000, in line with deposit rate trends.

As regard deposit rate developments, the average rate for savings deposits softened to 2.69% from 2.71% in 2000, but trended upwards for fixed deposits to a range of 4.19% - 4.99% as compared to 3.93% - 4.50% in 2000.
The broad-based advance in lending rates included, on the lower-end, a 13-basis point decline to 10.43% for overdrafts and on the upper-end, a 59 basis-point reduction in commercial mortgage rates to 8.87%. Additionally, the average consumer loan rates softened by 17 basis points to 13.41%, whereas the average residential mortgage rate was virtually stable at 8.95%.

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

	Outstanding as at 1998	Absolute Changes 1999	2000	2001	Outstanding as at 2001
Destination					
Government (net)	452.6	42.9	13.1	117.4	626.0
Central Bank	59.3	10.5	51.0	66.6	187.4
Commercial Banks	390.1	31.6	(38.3)	52.0	435.4
Other Financial Local Institutions	3.2	0.8	0.4	(1.2)	3.2
Rest of Public Sector	136.4	36.5	(29.6)	5.5	148.8
Central Bank	5.1	1.7	1.6	(0.4)	8.0
Commercial Banks	131.3	34.8	(31.3)	5.9	140.7
Other Financial Local Institutions	-	-	0.1	-	0.1
Private Sector	2,836.7	318.4	463.5	283.5	3,902.1
Commercial Banks	2,767.3	304.1	439.7	270.8	3,781.9
Other Financial Local Institutions	69.4	14.3	23.8	12.7	120.2
Financing					
Liabilities to the private sector & rest of the public sector	2,904.2	343.4	302.9	166.6	3,717.1
Currency	125.6	22.8	3.0	2.1	153.5
Demand deposits	516.4	134.9	71.9	(17.5)	705.7
Savings deposits	438.1	110.1	52.4	5.9	606.5
Fixed Deposits	1,824.1	75.6	175.6	176.1	2,251.4
International reserves	338.8	65.2	(61.4)	(30.2)	312.4
Other net external liabilities ( ) = increase	(362.7)	(91.8)	27.8	(120.2)	(546.9)
Capital and surplus	475.6	86.5	110.3	83.1	755.5
Other (net)	(22.0)	58.7	(0.2)	(6.3)	30.2

SOURCE: The Central Bank of The Bahamas.

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

Sector	**1998** $	%	**1999** $	%	**2000** $	%	**2001** $	%
Agriculture	18.9	0.6	11.8	0.3	8.7	0.2	15.8	0.4
Fisheries	8.9	0.3	5.7	0.2	6.8	0.2	6.7	0.2
Mining & Quarrying	19.6	0.7	17.5	0.5	21.9	0.6	23.6	0.6
Manufacturing	58.4	1.9	62.7	1.9	93.1	2.4	67.5	1.6
Distribution	197.8	6.5	161.2	4.8	181.9	4.8	225.5	5.4
Tourism	186.6	6.2	215.0	6.4	230.8	6.0	228.5	5.5
Entertainment & Catering	30.9	1.0	25.5	0.7	38.1	1.0	33.4	0.8
Transport	29.9	1.0	45.0	1.3	62.7	1.6	71.5	1.7
Construction	156.1	5.1	239.1	7.1	334.7	8.7	363.0	8.8
Government	72.7	2.4	68.5	2.0	89.0	2.3	115.4	2.8
Rest of Public Sector	129.6	4.3	157.6	4.7	131.1	3.4	133.2	3.2
Private Financial Institutions	4.3	0.1	3.8	0.1	12.0	0.3	28.2	0.7
Professional & Other Services	140.4	4.6	130.0	3.8	126.6	3.3	125.0	1.7
Personal	1,910.8	62.9	2,061.4	61.1	2,294.9	59.8	2,548.7	61.5
Miscellaneous	72.1	2.4	171.3	5.1	206.5	5.4	156.5	5.1
TOTAL	**3,037.0**	**100.0**	**3,376.1**	**100.0**	**3,838.8**	**100.0**	**4,142.5**	**100.0**

SOURCE: The Central Bank of The Bahamas.

Net Foreign Assets

Net foreign liabilities of the financial system rose sharply to $234.5 million from $84.1 million at end-2000 (see Table 11). This was explained mainly by a $98.7 million (21.9%) hike in commercial banks' net liabilities, with some $46.0 million on account of increased foreign exposure positions by banks, and the balance reflecting ongoing funding of financial and real sector projects concentrated in the tourism and manufacturing sectors, and in government and private financial institutions. Further, the net foreign assets of the other local financial institutions was reduced by $21.5 million, and the Central Bank's external reserves declined by $30.2 million (8.8%), although approximately half of the previous year's loss.

Bank Profitability

Provisional estimates for the twelve 12 months ended September 2001 point to a marked improvement in bank

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

		1998	1999	2000	2001
1. THE CENTRAL BANK	EXTERNAL RESERVES (Beginning of Year)	219,495	338,796	404,041	342,561
a. SALES TO:					
i) Commercial Banks		138,158	232,628	331,323	275,857
ii) Government		117,377	126,248	119,686	137,568
iii) Other Customers		100,675	109,706	131,562	142,986
iv) Total Sales		356,210	468,582	582,571	556,411
b. PURCHASES FROM:					
i) Commercial Banks		346,341	411,076	387,830	396,198
ii) Government		74,794	76,373	85,069	100,985
iii) Other Customers		41,553	30,550	19,188	15,608
iv) Total Purchases		462,688	517,999	492,087	512,791
c. Gold Bullion		-	-	-	-
d. Reserve Tranche		-	-	(471)	(288)
e. SDR Tranche		33	(6)	89	(4)
f. Other		12,790	15,834	29,386	13,750
g. Unrealised (Depreciation)/Appreciation of Marketable Securities at market value		-	-	-	-
	INCREASE/(DECREASE) (During Year)	119,301	65,245	(61,480)	(30,162)
	EXTERNAL RESERVES (End of Year)	338,796	404,041	342,561	312,399
2. DOMESTIC BANKS	NET FOREIGN ASSETS POSITION (Beginning of Year)	(332,853)	(362,738)	(454,500)	(426,702)
a. Foreign Exchange Transactions		6,820	(6,678)	4,397	(44,690)
i) Net Purchase/(Sale): Central Bank		(208,183)	(178,448)	(56,507)	(120,341)
ii) Net Purchase/(Sale): Other Customers		215,003	171,770	60,904	75,651
b. Changes in Local Liabilities		439,910	397,086	383,042	290,461
c. Changes in Local Assets		469,795	488,848	355,244	410,669
	INCREASE/(DECREASE) (During Year)	(29,885)	(91,762)	27,798	(120,208)
	NET FOREIGN ASSETS POSITION (End of Year)	(362,738)	(454,500)	(426,702)	(546,910)
	TOTAL NET FOREIGN ASSETS (End of Year)	(23,942)	(50,459)	(84,141)	(234,511)

SOURCE: The Central Bank of The Bahamas.

profitability over the comparative 2000 period, as evidenced by a 23.6% gain in the net income to $151.4 million. A strong 12.2% increase in interest income, largely on an expanded earnings assets base and nearly stable interest expenses, caused the net interest margin to widen by 18.6% to $287.9 million. An important contribution was also provided from increased commission and foreign exchange income. Meanwhile, operating costs, which paced 9.8% higher and included increases in staff expenses (9.7%), occupancy costs (10.1%) and other expenses (9.9%), occurred alongside higher provisioning for bad debts, which reduced net income from other sources by 20.7%.

Profitability ratios, as measured against average assets, were generally higher for the period. A firming in the interest margin ratio, to 5.93% from 5.38% in 2000, corresponded to a 4.3 percentage point increase in the effective interest rate spread. However, the net earnings margin improved less markedly to 2.81% from 2.28%, largely following the increase in the operating cost ratio to 3.66% from 3.59%. After netting out increased bad debt allowances and depreciation expenses against other income sources, the net income (return on average assets) ratio firmed by a more moderate 42 basis points to 3.12%.

Other Financial Sector Developments

The implementation of tighter legal and regulatory measures affecting financial services resulted in a significant restructuring of the sector's activities during 2001, particularly for banking and international business companies (IBC) registration. Largely reflecting a policy shift towards the elimination of managed or "brass plate" banking operations, the number of banks and trust companies licensed to operate from or within the jurisdiction decreased by 54 to 356. The number of public licensees fell by 41 to 227 and restricted and non-active licences fell by 13 to 129. Given a reduced rate of new incorporation and significant unwinding of existing companies, the number of registered IBCs positioned below the 80,000 mark by year-end from approximately 110,000 in 2000. As regard mutual funds, the number of licensed funds operating from or within The Bahamas stood near 700, with managed assets in the region of $90 billion as compared to a total of 716 active funds in 2000, with slightly higher value of managed assets.

Capital market developments were underscored by significantly depressed equity prices for publicly traded companies during the year. The FINDEX, the Bahamian weighted share price index developed by Fidelity Bank & Trust International Ltd., declined by 2.1% to 359.7 points, following estimated appreciations of 23.3% and 21.1% in the previous two years. Otherwise, progress in capital market deepening continued, with initial public offerings (IPOs) including a January 2001 equity placement of $7.5 million by Freeport Concrete Ltd. and a $25.0 million preference share issue in July by Caribbean Crossing Ltd., the Cable Bahamas Ltd.'s telecommunications subsidiary.

With the additions of Freeport Concrete Ltd. and RND Cinemas Ltd., the number of equity listings on the Bahamas International Securities Exchange (BISX) rose to 17 from 15 at end-2000, although market capitalization was lower by 15.7% at $1.7 billion. Adding the over-the-counter market, the number of publicly traded entities totaled 23, of which two were domestic mutual funds.

Among other developments on the BISX was the April unveiling of the mutual fund listing facility, aimed at providing initial and secondary listings for registered Bahamian and international mutual funds. Meanwhile, SG Hambros Ltd. joined the Exchange, becoming the third trading member, with approval to participate on behalf of its institutional clients.

Notable developments in the domestic banking sector included Citibank's disclosure of plans to discontinue its retail and consumer banking operations, deciding to concentrate instead on its corporate, wholesale business. The former operations ceased as of December 31, 2001. Workers Bank's operations were acquired by the Bank of the Bahamas in October, reducing to one the number of remaining savings and loans banks. Since 1990, three other banks have been removed from this group following upgrading of their licensees to commercial bank status.

Merger plans were disclosed for the combining of the Caribbean operations of Barclays Bank and CIBC (West Indies) Holdings Limited, under the brand of FirstCaribbean International Bank Ltd. The transaction, which must secure regulatory approval from all of the Caribbean jurisdictions in which the institutions operate, as well as the United Kingdom and Canadian home supervisory authorities of the respective banks, proposes to have the new regional entity headquartered in Barbados.

Box I: Update on Legislative/Regulatory Changes in the Financial Sector

1. **The Banks and Trust Companies (Licence Application) Regulations, 2002 (S.I. No. 37 of 2002)**

   These regulations, made on 15 February 2002, prescribe the information and documents to be supplied to the Central Bank by any person applying for a licence to carry on banking business or trust business. These regulations revoke the Banks and Trust Companies (Licence Application) (No. 1), Regulations 2001.

2. **The Banks and Trust Companies (Restriction On Use of Banking Names and Descriptions) Regulations 2002 (S.I. No. 38 of 2002)**

   These regulations, made on 15 February 2002 prescribe the information and documents to be supplied to the Central Bank on an application for approval to use the words, "bank", "trust", "trust company", "trust corporation", "savings", "savings and loan" or any of their derivatives in, inter alia, the title or description, letterhead, or advertisements of any business carried on in or from within The Bahamas. This requirement does not apply to banks or trust companies. These regulations revoke the Banks and Trust Companies (Restriction On Use of Banking Names and Descriptions) (No. 2) Regulations, 2001.

3. **The Financial Transactions Reporting (Amendment) Act 2001 (Act No. 17 of 2001);**

   The Financial Transactions Reporting (Amendment) Act, 2001 amends the Financial Transactions Reporting Act, 2000, (the principal Act).

   This Act provides, inter alia:-

   - that the Minister of Finance may extend the period allowed to financial institutions for the purpose of verifying the identity of their existing customers for up to twelve months beyond the commencement date of the Act. Before the amendment, the Minister could extend the period for verifying identity only up to six months;
   - for the following countries have been added to the list of countries in the First Schedule to the Act: Bermuda, Cayman Islands, Channel Islands, Greece, Isle of Man, Liechtenstein and Panama. Written confirmation of a customer's identity may be obtained in defined circumstances, from certain financial institutions that carry-on business outside The Bahamas if they are situate in a country listed in the First Schedule to the principal Act;
   - an expanded definition of "cash", which now includes bearer bonds, traveller's cheques, postal orders and money orders;
   - a definition of "foreign financial institution"; and
   - new provisions relating to the Compliance Commission, established by the principal Act. These provisions relate to, inter alia, confidentiality of information obtained by the Compliance Commission, its officers, employees, agents or advisers; penalties for unlawful disclosure of such information; and provisions for disclosure of information by the Compliance Commission to overseas regulatory authorities in defined circumstances.

4. **The Financial Transactions Reporting (Amendment) Regulations 2001 (S.I. No. 113 of 2001)**

   These regulations, made on 18 July 2001, amend the Financial Transactions Reporting Regulations 2000, in several material respects.

   The new Regulation 5A provides that in the case of certain institutions and bodies, documentary evidence in support of verification of identity is not normally required. This exemption extends to, but is not limited to, the following:-

   - any central or local government agency or statutory body;
   - any financial institution regulated by the Central Bank of The Bahamas, the Securities Commission of The Bahamas, the Registrar of Insurance, or the Gaming Board;
   - a publicly traded company or mutual fund listed on The Bahamas International Securities Exchange;
   - an applicant for insurance, where the premium is payable in one instalment not exceeding $2,500;
   - a foreign financial institution situate in a country listed in the First Schedule to the Financial Transactions Reporting Act, 2000, regulated by a body having corresponding responsibilities for regulation and supervision as the Central Bank of The Bahamas, the Securities Commission of The Bahamas, the Registrar of Insurance, or the Gaming Board; and
   - permits financial institutions to rely on documents bearing the photograph of a person whose identity must be verified, as long as that document is reasonably capable of establishing that person's identity. Such documents would include the relevant pages of a passport, voter's card or driver's licence.

   Under the new Regulations, a financial institution need not obtain written confirmation that credits to an account are and will be beneficially owned by an individual, a body corporate, or a partnership, if the account is a client's account being operated by an intermediary in his/her professional capacity.

   The requirement to obtain independent verification of information provided has been removed.

5. **Financial Transactions Reporting Act (Extension of Time for Verification) Order, 2001 (S.I. No. 170 of 2001)**

   By this Order, made on the 17 December, 2001, the Minister of Finance extended the time for financial institutions to verify the identities of their existing customers, to 30 June, 2002.

6. **The Financial and Corporate Service Providers (Amendment) Act, (Act No. 18 of 2001)**

   The Financial and Corporate Service Providers (Amendment) Act, 2001 amends the Financial and Corporate Services Providers Act, 2000, which established the office of Inspector of Financial and Corporate Services. This Act provides, inter alia, that where a financial institution which is regulated by the Central Bank of The Bahamas, the Securities Commission, the Registrar of Insurance or the Gaming Board, instructs a person licensed under this Act on behalf of its client, that financial institution is exempt from the provisions of sections 14(2)(b) and (3) of this Act (that is, the requirement to obtain client references on the reputation of the client, and, in the case of clients who own international business companies, the requirement to keep a record of the name and address of the beneficial owners of International Business Companies or the names and addresses of all partners regulated under the Partnership Act, 1995 on behalf of the client).

   Other exempted entities include certain regulated financial institutions located in the jurisdictions specified in the First Schedule to the Financial Transactions Reporting Act, 2000, publicly traded companies or mutual funds listed on the Bahamas International Securities Exchange or any other stock exchange prescribed by Regulations made under the Financial Transactions Reporting Act, 2000 and approved by the Securities Commission.

   Like the Financial Transactions Reporting (Amendment) Act, 2001, this Act also contains new provisions relating to, inter alia, confidentiality of information obtained by the Inspector of Corporate Service Providers, the Inspector's officers, employees, agents or advisers; penalties for unlawful disclosure of such information; and provisions for disclosure of information by the Inspector to overseas regulatory authorities in defined circumstances.

7. **International Business Companies (Amendment) Act, 2001 (Act No.19 of 2001)**

   - This Act amends the International Business Companies Act, 2000. The most significant of these amendments are as follows:-
   - Section 4 of the Act provides that all persons incorporating International Business Companies may do so only if they are licenced and approved under the Financial and Corporate Service Providers Act, 2000.
   - Banks and Trust Companies licenced under the Banks and Trust Companies Regulation Act, 2000 are excluded from this requirement.
   - In any case where this Act or the Articles of a company incorporated under this Act require a meeting of directors or shareholders, a single director or single shareholder of such a company may pass a resolution in lieu of a meeting of shareholders and directors.
   - The failure of a company incorporated under this Act to pay the fee prescribed under this Act within the time specified, may result in the striking of the company off the register of international business companies by the Registrar and subsequent notice of the striking off being placed in the Gazette.
   - An international business company is required to pay stamp duties only in relation to real property situate in The Bahamas and owned by it, or owned by any company in which it holds shares or for which it holds a lease.

8. **The Financial Intelligence Unit (Amendment) Act, 2001 (Act No. 20 of 2001)**

   This Act amends the Financial Intelligence Unit Act, 2000 by re-defining "Foreign Financial Intelligence Unit", as bodies in other jurisdictions which perform "functions similar to those of the [Bahamas] Financial Intelligence Unit". One effect of this amendment is that it is no longer necessary to have the Minister responsible for the administration of the Act, make an Order designating a body a "foreign" financial intelligence unit before information may be shared with it.

9. **The Financial and Corporate Service Providers (Licence) Order 2001 (S.I. No. 50 of 2001)**

   This Order, made on 30 March 2001, prescribe the form for licences granted under this Act.

10. **The Financial and Corporate Service Providers (General) Regulations 2001 (S.I. No. 51 of 2001)**

    These Regulations, made on 30 March 2001, prescribe the fees payable by persons licenced as financial and corporate service providers under the Financial and Corporate Service Providers Act, 2000 (FCSPA), and the fees payable by persons applying to be so licenced. They also prescribe the form that the certificate of registration required by the FCSPA, must take.

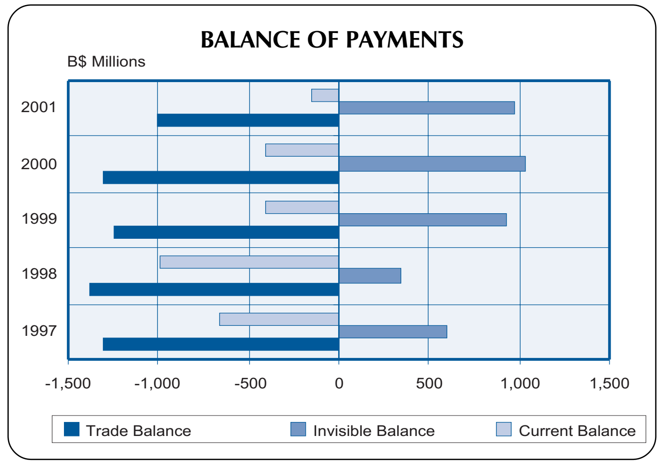
International Trade and Payments

Provisional balance of payments data indicated a significant narrowing in the current account deficit, to an estimated $152.2 million from $408.1 million in 2000, as imports slackened amid moderated consumer demand and a retrenchment in foreign investment projects (see Table 12). The contraction in the net invisible surplus, arising mainly from the decline in net tourism inflows, was also cushioned by lower payments for foreign construction services.

The merchandise trade deficit shrank to an estimated $998.3 million from $1,312.8 million in 2000. Reduced capital goods purchases for hotel and industrial sector works combined with more tempered growth in domestic consumption, led to a 18.4% contraction in non-oil merchandise imports to $1,485.1 million. The gap was further narrowed by a 5.6% decline in goods purchased in port by carriers to $112.8 million, which helped to mitigate the 5.0% reduction in export earnings to $648.9 million. The recent softening in global fuel prices affected most oil products, with the per barrel cost of propane lower by 6.7% at $29.19; motor gas by 6.7% at $36.87; kerosene by 8.6% to $34.64 and gas oil by 2.5% to $28.55. Conversely, the respective costs of aviation gas and bunker 'c' fuel rose by 10.0% and 10.94% to $34.64 and $23.20 per barrel.

The estimated services account surplus contracted by $54.6 million to $979.7 million in 2001. Net receipts from travel were sharply reduced by $66.0 million (4.3%) to an estimated $1,455.1 million, reflecting a 3.5% drop in tourism earnings and a less than 1% rise in expenditures by Bahamians travelling abroad. Of significance, increased premium rates for property insurance influenced a 34.8% hike in net payments for insurance services to $81.4 million. Net outflows by the Government also grew by nearly two-thirds and ongoing restructuring of industrial activity in Grand Bahama led to an estimated 29.8% decrease in the local expenses of the offshore manufacturing companies. These developments were significantly tempered by a marked reduction in external payments for construction services to a reported $26.1 million from $102.8 million in 2000, and a 7.9% fall-off in net payments for other service items to $245.4 million.

Under income, net external payments were almost unchanged at $174.8 million as reduced net income receipts by the public sector were offset by smaller net repatriations by foreign workers and private businesses. Net transfer receipts contracted marginally to $41.2 million, with net inflows to the Government lower by 4.8% at $45.1 million, to offset a 1.9% decrease in net foreign workers' remittance and other transfers to $3.9 million.



In capital and financial account developments, the estimated surplus narrowed to $215.7 million from $469.3 million in 2000, corresponding to the substantial completion of major hotel and industrial sector works commenced in earlier periods and a diminution in new inflows. Although net capital outflows by migrant workers rose by a quarter to $20.1 million, the more important trend was the reduction in net financial account inflows to $235.8 million from a sizeable $485.7 million in 2000. Specifically, lower foreign investment activity translated into a reduction in net private direct equity investments and net foreign loan financing to a combined $88.3 million from $362.3 million in 2000, while net foreign real estate purchases abated sharply to an estimated $31.6 million from $106.2 million a year earlier.

In a further improvement of the official external debt position, the public sector had net external debt repayment of $4.6 million, although below the $11.2 million recorded in 2000; and the net external liability of the banking sector surged to $120.4 million from $28.3 million in 2000.

After adjusting for possible errors and omissions, the overall payments balance recorded a deficit of $30.2 million—equivalent to the decrease in external reserves—but approximately half the 2000 shortfall.

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

	1998p	1999p	2000p	2001p
I) CURRENT ACCOUNT	(995.7)	(409.0)	(408.1)	(152.2)
i) Merchandise Trade (net)	(1,373.9)	(1,249.3)	(1,312.8)	(998.3)
Exports	362.9	523.2	805.3	765.5
Imports	1,736.8	1,772.5	2,118.1	1,763.8
ii) Services (net)	542.8	933.5	1,034.3	979.7
Travel	1,098.3	1,272.6	1,521.1	1,455.1
Transportation	(146.9)	(112.3)	(129.0)	(133.8)
Other	(408.5)	(226.8)	(357.8)	(341.6)
iii) Income (net)	(199.0)	(129.7)	(168.1)	(174.9)
Compensation of Employees	(34.5)	(41.0)	(51.1)	(46.8)
Investment Income	(164.6)	(88.7)	(121.9)	(128.1)
iv) Current Transfers (net)	34.3	36.4	43.4	41.2
Government	38.0	41.5	47.4	45.1
Private	(3.7)	(5.1)	(4.0)	(3.9)
II) CAPITAL AND FINANCIAL ACCOUNT	860.0	583.6	469.3	215.7
i) Capital Account (Transfers)	(11.7)	(13.6)	(16.4)	(20.1)
ii) Financial Account	871.7	597.2	485.7	235.8
1. Direct Investment	146.4	149.1	249.6	70.9
2. Other Investment	725.2	448.1	236.0	164.9
Central Gov't Long Term Capital Flow (net)	(11.3)	2.4	0.5	24.2
Other Public Sector Capital	6.0	(7.3)	(11.3)	(28.8)
Banks	29.9	91.8	28.3	120.4
Other	700.6	361.2	218.9	49.0
III) NET ERRORS AND OMISSIONS	255.0	(109.4)	(122.6)	93.7
IV) CHANGES IN EXTERNAL RESERVES ( ) = increase	(119.3)	(65.3)	61.5	30.2

SOURCE: The Central Bank of The Bahamas.

International Economic Developments

According to the International Monetary Fund's (IMF) estimates, prospects for global recovery dimmed in 2001, as the tragic events of September 11 reinforced the already weakening trend observed before the attacks. World output growth was approximately halved to 2.4% in 2001 from an upwardly revised 4.7% in 2000, featuring a short-lived recession in the United States, substantially moderated growth in continental Europe and a lapse in economic recovery in Japan. On the policy front, aggressive monetary accommodation among major economies anchored short-term interest rates at historical lows, and was supported by widespread fiscal easing. Low interest rates, combined with the sharp drop in energy costs, sustained consumer spending, despite softening labour market conditions and volatile equity markets. The global nature of the economic weakness adversely impacted manufacturing exports and commodity-based and technology industries, resulting in sharply decelerated world trade flows.

After expanding by 3.5% in 2000, the pace of economic growth in the major industrial countries slowed to an estimated 1.0% in 2001. The United States' economy grew at an average annual rate of 1.0% compared with 4.1% in each of the two previous years. After experiencing a technical recession in the second and third quartiles, economic activity rebounded significantly in the final two months of the year, supported by the strongest surge in consumer durables purchases in 15 years, brisk federal government spending and generous tax refunds.

In Japan, where persistent uncertainties in the financial sector coupled with record unemployment levels continued to undermine confidence and spending, real output contracted by 0.4% relative to a strengthened gain of 2.2% in 2000. Growth in the euro area was more than halved to an estimated 1.5% in 2001, with Germany's advance slackening to 0.5% from 3.0%, as faltering consumer confidence and a slowing in the productive sector worsened amid adverse global developments and uncertainty over to the introduction of the euro. By contrast, output in the United Kingdom achieved the highest rate of growth among the G-7 countries, although moderating to 2.3% from 2.9% in 2000, and continuing to be buoyed by a consumer spending and housing boom, which mitigated the impact of falling exports and investments.

In the developing world, estimated real output growth moderated to 4.0% from 5.8% in 2000, with negative reactions to September 11 amplifying weaker first half trends. On a geographical basis, the expansion in Latin America and the Caribbean slackened to an estimated 1.0% from 4.1% in 2000, reflecting weakness in North American export markets and the fall-out from the economic crisis in Argentina. Moreover, expansion in the European Union accession states decelerated sharply to 0.2% from 4.8%, with the recession in Turkey playing a central role. Less significant softening was recorded for the former Soviet economies, which grew at a reduced rate of 6.1%; the Middle East at 4.5% compared to 5.5%; and Asian states at 5.6% vis-à-vis 6.8% in 2000. On a more positive note, output growth in Africa firmed at an estimated 3.5%, benefiting from the ongoing structural reforms within the region.

After tightening in 2000, labour market conditions in the major economies eased in 2001, with the average jobless rate rising to 6.0% from 5.8%. The deteriorating trend was most evident in North America where the average unemployment rate for the United States rose to 4.9% from 4.0%, representing the first annual increase in six years, and for Canada, to 7.3% from 6.8%. The average joblessness in Japan also moved higher to 5.0% from 4.7%, amid continued corporate sector restructuring. However, notable employment gains were posted in the euro area, with France's average unemployment falling to 8.6% from 9.5% of the work force, and Germany's rate unchanged at 7.5%. The United Kingdom also experienced an improvement in average unemployment to 5.2% from 5.6% in 2000.

Average consumer price inflation in the major economies stabilized at an estimated 2.3% in 2001, benefiting from declining world commodity prices and some release of internal demand pressures. In the United States, the average inflation rate fell to 2.9% from 3.4%, while deflationary conditions persisted in Japan, where average prices dropped further by 0.7% relative to 0.8% in 2000. Conversely, euro area inflation rose to 2.7% from 2.4%, although the inflation rate in Italy and France held steady at 2.6% and 1.8%, respectively. In the United Kingdom and Canada, inflation edged incrementally higher to 2.3% and 2.8%, from 2.1% and 2.7%, respectively.

According to the IMF's 2001 index for primary commodities, generally weaker global demand translated into a 9.6% reduction in world prices, in contrast to the 23.3% increase posted in 2000. Reversing a two year hike, average petroleum prices fell by 13.9%, consequent on sluggish global demand and OPEC's ongoing difficulties in coordinating production cuts. The price of benchmark U.K. Brent crude was reduced by $7.50 (28.0%) to $19.31 per barrel at end-December. In addition, after rising by 1.7% in 2000, the price of non-fuel primary commodities declined by 5.4% in 2001. The price of gold, however, strengthened modestly in precious metals markets, to $276.50 per troy ounce from $272.00 in 2000, with the highest fixing for the year ($290.85) posted following the events of September 11, vis-à-vis a low of $259.05 per ounce in March.

Monetary policy was substantially accommodative in most major industrial economies as central banks, taking advantage of the increased flexibility provided by the mild inflationary environment, instituted aggressive easing in interest rates to counter the economic downslide. Most notably, the United States' Federal Reserve orchestrated an unprecedented level of easing in short-term rates to a 40-year low. The discount rate was cut on 11 occasions, including four times following September 11, by a total of 450 basis points to 1.25%. The fed funds rate was similarly slashed, ending the year at 1.75%; and leading commercial banks cut their prime rates to 4.75% in December from 9.00% at the start of the year. Likewise, the Bank of England cut its base rate on 7 occasions, from 6.0% to 4.0% at year-end, inclusive of the cumulative 100 basis point reduction after September 11. The European Central Bank also took steps during the year to boost continental economies, reducing it's marginal lending and deposit facility rates on four occasions, by a total of 150 basis points, to 4.25% and 2.25%, respectively—nearly reversing the 175 basis point tightening of 2000. With less room to maneuver on the monetary front, the Bank of Japan reduced its official discount rate from the 0.5% level maintained since 1995, on three occasions, by a total of 40 basis points to 0.10% by September 19. The Bank also provided more tangible support to the banking system in the form of additional liquidity.

Currency trends were dominated by the United States' dollar, which remained remarkably strong throughout 2001, even as economic fundamentals deteriorated. Much of the dollar's strength, particularly since the post September 11 lows, was against the Japanese Yen, staging a rally of 15.6% to ¥131.66. The dollar also gained 2.8% against the pound sterling to £0.6875; 2.4% against the Swiss franc to CHF1.6598 and 6.0% relative to the Canadian dollar to C$0.6277. By contrast, the dollar depreciated by 5.6% versus the Euro to end the year at 0.8895.

During the year in review, fiscal consolidation efforts gave way to broadly expansionary stances throughout advanced economies, with the subsequent firming in the average deficit to GDP ratio to 1.3% from 0.2% in 2000. As the United States' administration focused on stimulating the economy with tax refunds, boosted spending on the military and homeland defence and subventions to the airline industry after September 11, the fiscal surplus contracted to an estimated 0.3% of GDP from 1.5% in 2000. Increased budgetary outlays also trimmed the United Kingdom's fiscal surplus to 0.5% of GDP from 3.9% in 2000. In addition, the consolidated euro area position reverted to a deficit of 1.1% from a surplus of 0.2% in 2000, largely reflecting the deterioration in Germany's balance to a deficit of 2.5% of GDP from a surplus of 1.2% in 2000. The persistent weakness in the Japanese economy and the large public debt overhang, framed an overall deficit estimated at 7.2% of GDP, only slightly less than the 7.9% recorded in 2000.

Although equity markets recovered strongly from their post-attack lows, global capital markets registered losses for the year, dampened by the general economic downturn evidenced from as early as the first quarter of 2001. In the United States, the aggregate value of stocks declined by approximately $1.4 trillion or 12% in 2001, almost matching the percentage drop in 2000. The technology-laden NASDAQ 100 index fell further by 33% in 2001. The Dow Jones Industrial Average (DJIA) and the Standard and Poor's (S&P) 500 share price indices also recorded annual losses of 7.1% and 13.0%, respectively, inclusive of mitigating gains of 13.3% and 10.3% from end-September lows. Likewise, the United Kingdom's FTSE-100 share price index weakened by 16.2%, although the index gained 6.4% from end-September lows; and Germany's Dax index rebounded by 19.8% from its September low, to reduce overall losses for the year to 19.8%. In Japan, continuing economic difficulties and uncertainty over new mark-to-market accounting rules for business assets placed the Nikkei-225 index 23.53% lower, although recovering by 7.9% from September lows.

Growth in world trade volumes decelerated sharply to 1.0% in 2001 from 12.4% in 2000, with weaker demand caused by deteriorating economic conditions in the advanced economies and regional instability in parts of Africa, the Middle East and Asia. With substantial excess capacity in many industries, price and volume gains for many internationally traded goods softened. The result was a narrowing of external current account imbalances for most industrial countries. In particular, the United States' current account deficit fell by 11.8% to an estimated $392.0 billion; the United Kingdom's shortfall decreased by 12.9% to a projected $24.3 billion, while Germany's external account deficit was almost eliminated vis-à-vis $19.4 billion in 2000. For Japan, decreased net exports outweighed curbed domestic demand and, combined with the effects of the yen's recent depreciation, caused a reduction in the estimated current account surplus by 22.3% to $90.8 billion.

Following the attacks in New York and Washington, the 56th Annual Meetings of the IMF/World Bank, originally scheduled for September 24 - 26 in Washington D.C., were cancelled.

OPERATIONS

Banking

Currency Operations

Currency in active circulation increased by 1.19% to $218.50 million at end-2001, with the annual peak ($225.2 million) continuing to be registered in December on account of the spike in seasonal demand over the Christmas period. The old Bahamian sterling currency note liability of the Central Bank totaled B£28,725.31, which was equivalent to B$82,073.23.

Bahamian dollar banknotes, issued in denominations of $0.50, $1, $3, $5, $10, $20, $50 and $100, had a circulation value of $206.5 million at end-December 2001. Although the $100 and $50 notes continued to represent the two largest shares by outstanding value, at 42.12% and 26.28% respectively, they accounted for only 3.92% and 4.89% of the total quantity in circulation. The largest quantity of bills in circulation remained the $1 notes, at 65.6% of the total, followed by $20 and $5 notes at 6.8% and 6.5%, respectively. At year-end, $1 notes comprised 7.1% of the value of notes outstanding; the $20 denomination, 14.7% and the $5 bill, 3.5%.

The aggregate value of coins in circulation stood at $12.0 million, comprising denominations of 1¢, 5¢, 10¢ 15¢ and 25¢. By volume, the 1¢ piece was the most widely circulated denomination, at 75.4% of the total, followed by the 10¢ (9.8%) coin, the 5¢ piece (8.4%) the 25¢ (5.5%) and the 15¢ piece (0.67%).

As issuer of the currency, the Central Bank is responsible for all matters associated with banknotes and circulation coins, ranging from currency design and recording of movements of currency stocks, to the examination of banknotes for reissue or destruction.

In the Bank's ongoing efforts to enhance the security and aesthetic features of the family of banknotes, the $1/2 and $1 notes were redesigned, and the $5 note upgraded. In particular, a more recent portrait of Queen Elizabeth II now appears on the $1/2 banknote, while new $1 banknotes bear the portrait of the late Sir Lynden O. Pindling, former and first Prime Minister of an Independent Bahamas. The monocolour appearance of these banknotes has been upgraded to multicolour, and the vignettes on the reverse made more lifelike. Among other design changes, a sky blue metallic has been added to the upper portion of the vignette on the reverse of the $5 banknote which bears the portrait of Sir Cecil Wallace Whitfield.

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 its 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 during 2001 were:

	Buying	Selling	Date Employed
Highest	1.5064	1.5139	January 3, 2001
Lowest	1.3740	1.3809	June 11, 2001

Relations With Public Sector

The stock of Bahamian Treasury bills outstanding increased by $36.1 million to $168.6 million during the year, with a moderate shift in holdings away from the Central Bank. In this regard, rediscounts totaled $90.0 million, of which $86.0 million represented purchases from commercial banks and $4.0 million vis-à-vis the public corporations. Sales totaled $111.0 million, comprising $109.0 million to commercial banks and $2.0 million to the public corporations.

For the year, Bahamas Government Registered Stocks (BGRS) maturities amounted to $48.0004 million compared to new bond issues of $75.2478 million, for an outstanding stock of $1,213.6334 million. The maturity structure for existing bonds covered the years 2002 – 2021, offering variable yields of Nassau Prime Rate (6.00%) plus a spread of 0.125%-1.500% per annum, and fixed annual rates of interest, between 5.75% and 10.50%.
Bridge Authority bonds outstanding remained at $28.0 million, with the maturity structure spanning between 2014 – 2029. Variable yields fell between 1.000% - 1.625% per annum over the Nassau Prime Rate

Relations With Banks

Section 19 of the Central Bank of The Bahamas Act, 2000, requires banks to maintain "Statutory Reserves" against their Bahamian dollar deposit liabilities. The reserve ratio has been fixed at 5.0% since 1974, with the required deposit balance to be held at the Central Bank established at a minimum 80% of required reserves. Based on growth in the Bahamian dollar deposit base, required reserves rose by 5.9% to $144.5 million at end-2001. Banks' excess reserves, at $37.7 million, represented an increase of 187.8% over the 2000 level. Banks also maintained balances at the Central Bank to facilitate the Clearing Banks Associations' cheque clearing arrangements, which is managed by the Central Bank. Although the volume of cheques processed was stable at approximately 3.9 million, the associated value increased by 2.7% to $5,762.8 million.

The Bank continued to use the Society Worldwide Interbank Financial Telecommunication (SWIFT) network to transmit high speed messages relative to international business.

Investment Currency Market

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 offer rates were unchanged at 20% and 25%, respectively. The Investment Currency Market opened the year with a balance of $1,749,083.54. Purchases totaled $1,420,737.11 and sales $826,112.19, for a closing balance of $2,343,708.46 at end-December, 2001.

Exchange Control

During 2001, the Department heightened its monitoring of commercial banks' operations and their compliance with the Exchange Control Regulations, amid the increased requirements under the enhanced financial sector legislative regime. The Department also sought to improve its responsiveness to the public, relative to the processing of applications for foreign currency approvals.

The number of Authorized Dealers operating at end-2001 was unchanged at nine (9), while the number of Authorized Agents increased by 2 to seventeen (17) with the granting of Authorized Agent status to the Bank of The Bahamas Trust Limited and Thorand Bank and Trust Limited.

Research

The Department continued to spearhead the activities of the Bank relative to the collection, compilation, analysis and dissemination of economic and financial data, and the provision of technical support to the Bank's policy determination process.

Staff of the Department concluded a number of research studies and policy briefs during 2001, including a paper on the continued viability of the Sir Stafford Sands (tourism) model of development for The Bahamas, which was presented at the Caribbean Centre Monetary Studies' Annual Conference, held in Belize in November. Other works included an updated study on the profitability and balance sheet developments of domestic banks, a preliminary flow of funds analysis for the Bahamian economy, a preliminary study on the implications of full dollarization for the Bahamian economy. Further progress was also achieved in the development of a forecasting framework for The Bahamas' balance of payments and a policy programming and forecasting framework for domestic credit.

In its ongoing efforts to enhance data collection and compilation functions, the Department worked closely with financial institutions to ensure timeliness and accuracy of reporting to the Central Bank, and continued to make progress in the development of its FAME statistical database. With the progress achieved during 2001, the Department expects to begin production of its recurring statistical reports and charts, including those for the quarterly Economic Review and Statistical Digest, directly from the FAME databases by mid-2002. Utilisation of the FAME databases will also increase the efficiency of data collection and compilation efforts, as well as enhance the Department's research efforts.

Significant enhancements were made to the semi-annual Bank for International Settlements' (BIS) International Banking Statistics (IBS) survey, to accommodate reporting requirements under the International Monetary Fund's Coordinated Portfolio Investment Survey (CPIS). The latter seeks to address the discrepancies in reported global flows of portfolio investment transactions and in associated estimates of stock and investment income. It covers all financial institutions with cross-border investment activities, including banks, insurance companies and mutual funds. Both surveys use the Department's Microsoft Excel Diskette Reporting System (DRS), which allows seamless transfer of the information into the FAME database. In this context, the Department hosted six training sessions over the period June 12-14 2001, to update and familiarize banks with modifications to the DRS.

During the final quarter of 2001, the Department launched an expanded financial sector survey to facilitate the production of more comprehensive estimates of this sector's contribution to the economy. The survey builds upon the Annual Banking Survey, extending the assessment to the local value added of credit unions, mutual funds, international business companies and insurance companies.

The Department and the Public Treasury continued to collaborate in the compilation of government finance statistics and, along with the public corporations, recording of the public sector domestic and foreign currency debt within the Commonwealth Secretariat's Debt Recording and Management System (CS-DRMS). Invaluable assistance and cooperation from domestic banks and other entities continued to underpin the Department's overall efforts to produce the Quarterly Statistical Digests, Quarterly Economic Reviews and the Annual Report. These publications, which disseminate information on domestic and international economic trends, are issued to the local and international public.

During 2001, the Department assumed responsibility for the implementation of the Bank's Website project. The first of this four phase project will be completed with the launch of the Bank's Website in early 2002.

Bank Supervision

The Department devoted considerable resources to implementing the revamped financial legislation and regulations introduced at the end of 2000. These included an augmentation of the staffing resources to accommodate the commencement of on-site inspection of financial institutions, implementation of polices which will result in the discontinuation of managed bank licensees, and the development and dissemination of anti-money laundering and other guidelines. The year was also marked by a strengthening of cooperative mechanisms with both local and international regulatory agencies. These activities, combined with the efforts of other local regulatory agencies, were instrumental in enabling The Bahamas to obtain Qualified Jurisdiction (QJ) Status from the United States Internal Revenue Service (IRS) on 9 January 2001 and to achieve the removal from the Financial Action Task Force's list of Non-Cooperative Countries and Territories (NCCT) in the global fight against money laundering on 22 June 2001.

Implementation Activities

On-site Inspection

The Department's technical resources were expanded to establish a group of specialists for the conduct of on-site examinations under the coordination of a Senior Bank Supervision Consultant (formerly of the U.S. Office of the Comptroller of the Currency). Two senior on-site supervision experts (both formerly with the Canadian Office of the Superintendent of Financial Institutions) were recruited to supervise the commencement of this work, and to assist with the development of an expanded supervisory team which, over the next three years, is expected to comprise some 65 technical persons.

Although it had been envisioned that approximately 90 examinations would be carried out during 2001, a total of 116 were actually conducted, inclusive of 3 follow-up examinations. These examinations initially focused on the implementation by banks and trust companies of the statutory and regulatory requirements regarding know-your-customer and anti-money laundering policies, procedures and controls, contained in the Proceeds of Crime Act 2000, the Financial Transactions Reporting Act, 2000 (as amended), the Financial Intelligence Unit Act 2000 (as amended) and Regulations made pursuant to these statutes. The coverage of the examinations was expanded however, in August 2001 to encompass the full range of banking and trust activities, including risk management, control systems, safety and soundness issues and corporate governance.

The on-site supervision programme has enabled the Department to gain valuable insight into the daily risk-management practices of banks and trust companies; benchmark against best standards and identify weaknesses, which then are brought to the attention of the licensee's management and board of directors, in order to facilitate prompt corrective action to comply with the requirements of the Inspector of Bank and Trust Companies.

The asset quality assessments conducted as a part of the on-site supervision programme also enables the Department to impress on the management and boards of licensees the importance of ensuring that appropriate standards are employed in the determination of provisions against credit and other risks. The reviews have further highlighted the critical importance of sound management information systems as part of an effective credit-risk management process.

Consolidated Supervision

In 2001, the Department significantly expanded its cooperation in international cross border supervision, by granting approval for the Swiss Federal Banking Commission (SFBC) to conduct twenty-three on-site examinations of licensees incorporated in Switzerland or owned by Swiss institutions. By end-December, twenty of these examinations had been carried out. The Bank also actively cooperated with the SFBC on other regulatory matters of mutual interest and concern. Additionally, the Department granted approval for the Philippine Supervisory Authority to conduct an inspection of a Bahamian subsidiary of a Philippine bank, and actively cooperated in a number of matters with the Financial Services Authority (FSA) of the United Kingdom, the Central Bank of Ecuador and several other international regulatory authorities.

Regulations

In May 2001, the Governor issued regulations regarding the information required of applicants seeking a bank and/or trust licence, clearly establishing the minimum information and documentation necessary to enable the Bank to carry out comprehensive due diligence (fit and proper criteria) on proposed shareholders, directors and senior management. Documents required cover identification; work experience; financial propriety and character of the proposed principals and officers; business plans and financial projections; summary of internal procedures and controls to be utilized by the proposed entity; organizational structure—inclusive of reporting lines and duties and responsibilities of members of the board and executive officers.

Regulations regarding the use of the words ‘bank’, ‘trust’ and any derivative thereof by persons in The Bahamas were also issued in May. These Regulations specify the requirements for applicants—not to be licensed to conduct banking or trust business—to apply for the approval of the Governor to use these restricted designations in the formal name of the entity in question.

Guidelines

Guidelines regarding the requirements for the transition by managed banks to meaningful physical presence were issued on 18 May 2001. Additional guidelines, covering branches of banks and trust companies and restricted licensees, are to be issued in early 2002.

Corporate Governance Guidelines, requiring the implementation of comprehensive risk management controls and systems appropriate to the nature of the business and operations of licensees, were issued on December 2001. These Guidelines further outline the duties and responsibilities of directors with respect to governance of licensees. Compliance with the Corporate Governance Guidelines is subject to annual review.

A Declaration, to be completed and field by Directors and Senior Officers of all licensees was introduced during the third quarter 2001. This document requires individuals to reveal all affiliations with other entities, assists in identifying any potential conflicts of interest, and or issues in the individual’s past which may lead to disapproval by the regulator.

During the last quarter of 2001, the Financial Intelligence Unit (FIU) issued Suspicious Transactions and Anti-Money Laundering Guidelines covering record-keeping and suspicious transactions reporting rules, the obligation of the institutions to appoint a Money Laundering Reporting Officer and Compliance Officer, and outlining and education and training requirements for relevant staff.

IMF Module II Assessment

The Module II Assessment is one of the multiple step elements of the International Monetary Fund’s (IMF) programme for assessment of the financial sector regulatory regime in territories and jurisdictions providing international services, against international best-practices, in accordance with guidelines issued by the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors and the International Organisation of Securities Commissions, along with certain other benchmarks recognized by the IMF. An Assessment Team of four experts in the fields of law, banking supervision and securities regulation conducted a series of pre-meetings with the financial sector regulators and their licensees during the week of 14 – 18 January 2002. The team is scheduled to conclude the Module II Assessment during the latter part of 2002.

Initiatives to Combat Financing of Terrorism

Following the September 11 events, the Bank and the financial sector engaged in a series of initiatives to uncover any assets banked in The Bahamas with potential links to the financing of terrorist activities and individuals and organizations involved in terrorist activities. These initiatives have not uncovered any assets thought to have terrorist connections.

On September 25, The Bahamas executed “The International Obligations (Economic and Ancillary Measures) (Afghanistan) Order, 2001” which, among other provisions, prohibited the provision of financial services with Osama Bin Laden and the Al Qaeda organization or any individuals or entities associated with them. The Order froze accounts held in the name of Osama bin Laden, the Al Qaeda organization or any person or organization associated with them, as designated from time to time by the Attorney General after consultation with the Governor and the Director of the Financial Intelligence Unit. A task force, chaired by the Attorney General and Minister of Justice, and including the Governor, was established to monitor the implementation of the Order.

As a result of the broader financial sector reviews conducted against a list of 300 individuals and entities published by the Attorney General’s Office on September 27, some US$32 million were initially frozen but later released, suspicions as to possible links not being confirmed.

The FATF issued eight special recommendations covering terrorism at their October, 2001 special plenary. Questionnaires regarding compliance with these recommendations were sent to all countries for completion prior to year-end 2001. The Bahamas, having cooperated fully with these initiatives, has commenced the drafting of Anti-Terrorism legislation for early implementation.

The resultant bill is due to be presented to Parliament by early 2002. This bill specifically defines and criminalizes terrorism and provides special remedies and powers to law enforcement agencies for the investigation and punishment of terrorism. Further, existing laws, relating to the seizure, confiscation and forfeiture of assets, are to be amended, where appropriate, to allow for the effective disruption of the flow of any funds, shown or suspected to have been used to facilitate terrorist activities. This would include, but would not be limited to, funds used to provide food, housing, equipment or training. Every effort is being made to expedite this process.

The New Capital Accord

In 1988, the Basel Committee on Banking Supervision issued the original Basel Capital Accord, which set minimum capital requirements for banks active internationally. Today, over 100 jurisdictions—including The Bahamas—adhere to the Accord. In 1999, the Committee released a Consultative Paper on a proposed new capital accord "Basel II" for comments by the international banking industry and its regulators. In January 2001, a second Consultative Paper was released for comment and the Committee is currently in the final stages of drafting its proposal, based on the results of this wide consultative process; the draft is scheduled to be released in early 2002.

The proposal is based on three mutually reinforcing "pillars", intended to enable banks and supervisors to more adequately, and with greater sensitivity to market forces, estimate and determine appropriate capital requirements in relation to risks undertaken and encountered by banking institutions. The New Accord is expected also to permit a choice of systems for the determination of capital, based on the level of complexity is being addressed. In 2002, the Department's Policy Unit will focus particular attention on the proposal and intensify the process of educating the Bahamian banking sector as to the proposal's eventual implementation, now scheduled for 2005/6.

Co-operation at International, Regional and Local Levels

The Central Bank of The Bahamas continued to foster relationships with other supervisory agencies and authorities and to promote regional cooperation in banking supervision through its active participation in initiatives sponsored by the Basel Committee on Banking Supervision, the Offshore Group of Banking Supervisors, the Association of Banking Supervisory Authorities of Latin America and the Caribbean Group of Banking Supervisors.

The Bank devotes considerable resources to its participation in the review of Financial Sector International Best Practices. In this regard, the Bank participates as part of working groups, established by the Financial Action Task Force and the Offshore Group of Banking Supervisors, to examine the development of operating standards for Trust and Company Service Providers, and the revisions to the FATF 40 (plus 8) recommendations on money laundering. The conclusions of the working groups are scheduled to be released by mid-year 2002, after consultation with various international professional associations and review of comments received from the public.

Training

In January, the Bank, the Caribbean Group of Banking Supervisors, the Financial Stability Institute (FSI) and the Toronto Leadership Centre jointly hosted a training seminar for regional regulators and supervisors on 'the New Capital Accord and Consolidated Supervision'. Some twenty-one regional regulators and supervisors attended the seminar. Participants, who on the first day included representatives of private banking institutions, were given an overview of the proposed New Accord and were also exposed to case studies in consolidated supervision.

Additionally, the Attorney General's Office, in conjunction with the Bank, hosted a series of workshops during May 2001 on The Bahamas' anti-money laundering regime for senior and junior officers of banks and trust companies. One such workshop was specifically geared towards other financial sector participants, such as lawyers, management companies, accountants, etc.

In May, the Bank hosted a Round-Table Discussion for the Bahamian Accounting and Audit profession. This seminar, which included the participation of a technical representative from the Bank for International Settlements, sought to brief and familiarize the auditors of banks and trust companies, with their obligations under the improved financial sector legislation, particularly from the viewpoint of the regulator, and to discuss issues related to the cooperation of the external accounting and auditing profession with the banking regulatory regime.

The Bank participated in three seminars organized by the financial services industry, which sought to update industry participants on the provisions of the legislation introduced at the end of 2000.

The heads of regulatory agencies met monthly, to discuss matters of mutual concern and to investigate avenues to facilitate collaboration on the supervision of financial conglomerates. In early 2002, attention will be devoted to a comprehensive review of the jurisdiction's regulatory framework, to further improve coordination among the various regulators.

Bank Supervision Policy Unit

A special Policy Unit, which is intended to focus on monitoring developments in financial sector regulation and policy, has been established within the Bank Supervision Department. The Unit will provide analysis of latest developments/emerging issues in bank supervision, recommend changes to existing policies, legislation, regulations and guidelines and constitute the nucleus of the Bank's participation on international committees, working groups, etc., devoted to policy development.

Managed "Brass Plate" Operations

The program to discontinue the operations of public banks with no physical presence in The Bahamas is progressing in accordance with plans.

a. **Managed subsidiaries (of international banking institutions) and stand-alone licensees**

Guidelines outlining the requirements for the transition of public managed bank licensees to full physical presence were issued on 18 May 2001. On or before 30 June 2004, the affected licensees must have made the full transition to full physical presence in The Bahamas. The Guidelines establish Criteria and Operating Requirements, covering such areas as Corporate Governance, Records Management, transitional Managing Agent facilities and physical location arrangements. Fifty-four (54) subsidiaries and forty-five (45) stand-alone unrestricted bank and/or trust licensees have been impacted by the physical presence requirement.

By end-2001, thirty-six (36) subsidiaries and twenty-four (24) stand alone entities which previously operated as managed banks remained licensed to operate from the jurisdiction, with thirty-nine (39) licenses having been cancelled during the year. The physical presence requirement will not apply to those subsidiaries managed and operated by an affiliated licensed entity within the same banking group with a physical presence in The Bahamas. However, these subsidiaries will be required to comply with other Criteria and Operating Requirements prescribed in the Guidelines.

b. **Managed branch licensees (of international banking institutions)**

Guidelines with respect to the requirements for the continuation of the management of branches of foreign banks (currently without a physical presence) were issued on 30 January 2002. These Guidelines stipulate that, effective 31 March 2002, only those banking institutions headquartered in jurisdictions deemed to be supervised in accordance with the criteria laid out in the Guidelines will be permitted to continue to operate branches from within The Bahamas without maintaining a full physical presence in The Bahamas subsequent to 30 June 2004. Those licensees which satisfy the criteria are required to maintain appropriate Management Agreements with third-party Managing Agents or with affiliated banks or trust companies that already have a full physical presence in the jurisdiction. Those that do not meet the criteria will be required to convert to separately incorporated, licensed banks or trust companies, with a full physical presence, or to discontinue their operations from the jurisdiction.

At end-2000, thirty-eight (38) branches of foreign banks and/or trust companies were licensed to conduct business from within The Bahamas as managed public licensees. By end-2001, nine (9) of these branch licences had been revoked, for the most part as a result of the implementation of the new physical presence policy. Indications are that substantially all remaining branches will continue operations in conformity with the new policies.

In the future, the Central Bank will not licence a foreign bank to operate a managed branch from The Bahamas unless its parent organization already maintains or establishes a subsidiary or branch with a full physical presence in the jurisdiction, and satisfies the criteria and operating requirements laid out in the Guidelines.

c. **Managed restricted licensees**

Guidelines with respect to the requirements for the continuation of the management of restricted (i.e. non-public) banks and trust companies, currently without a physical presence in the jurisdiction, are scheduled to be issued in early 2002. At end-2000, there were forty-seven (47) restricted bank and/or trust companies licensed to conduct business from The Bahamas. By end-2001, thirty-nine (39) of these entities continued to be licensed.

The Bank has determined that, as a general rule, only those restricted licensees that comply with proposed Criteria and Operating Requirements will be permitted to operate from The Bahamas without maintaining a full physical presence in The Bahamas. Managed restricted licensees that do not satisfy these Criteria and Operating Requirements will be required either to establish a full physical presence or to wind up their operations.

Human Resources

The Central Bank has engaged Mr. Richard Ellis, formerly with the Bank of England, PricewaterhouseCoopers and the Bahrain Monetary Agency, as Consultant, with responsibility as Inspector of Banks and Trust Companies and Manager of the Department, succeeding Mr. Iqbal Singh. Mr. Singh, after seventeen years of service to the Bank, will continue for a period of time with the Bank in the capacity of Consultant on Bank Supervision issues. Mr. Ellis' duties will entail implementation of plans for an expanded and comprehensive bank supervision function.

New accommodations for Bank Supervision staff (adjacent to the existing Central Bank offices) are scheduled to be completed and occupied by early January 2002. The new location will accommodate up to sixty-five (65) professionals.

On-going Supervisory Activities

During 2001, the Department carried out assessments of the operations of 227 banks and trust companies. The operating viability of the licensees as going concerns and their compliance with the Bank's requirements concerning liquidity, solvency, risk exposures and earnings in the changing market place, were investigated and appraised.

With a view to promoting 'fit and proper' management of bank and trust company licensees, important attention is focused on insuring that persons who control and manage the business of banks and trust companies possess the highest credentials and have the appropriate experience for their positions. Accordingly, the Department vetted and approved the appointment of 152 directors and 176 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 targeted institutions, the public, or other regulatory agencies.

During 2001, the Department made recommendations to the Governor as to issuances, revocations or adjustment of bank and trust licences of entities operating in The Bahamas. Accordingly, nine new licences were issued and sixty-three (largely discontinuation of formerly managed banks) were revoked. At end-2001, the number of banks and trust companies operating within or from within The Bahamas stood at 356 (see Table 13).

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 2000	144	104	20	8	11	106	10	4	3	**410**
Add Licenses issued in 2001	1	3	1	0	0	4	0	0	0	**9**
Less Licenses revoked in 2001	-19	-22	-2	-3	-2	-7	-6	-2	0	**-63**
Sub Totals	**126**	**85**	**19**	**5**	**9**	**103**	**4**	**2**	**3**	**356**
Licenses upgraded	1	0	0	0	0	0	0	0	0	1
or downgraded	-2	-2	0	0	0	0	2	1	0	-1
December 2001	**125**	**83**	**19**	**5**	**9**	**103**	**6**	**3**	**3**	**356**

SOURCE: The Central Bank of The Bahamas.
B = Bank, T=Trust, T(Nom)=Nominee Trust
Note: Gross revenue from License Fees during 2001 amounted to approximately $8,696,000.

Computer

During 2001, the Computer Department made further progress on the J. D. Edwards Financial upgrade project, which included automation of the Fixed Assets and Accounts Payable modules with reconciliation facilities for Bahamian Dollar cheques. Efforts were also ongoing towards the identification and implementation of various features of the Human Resources module. The Department, in its ongoing support role, provided assistance to the Research Department on the FAME time-series database project, and commenced development work on the Bank Supervision Department's financial sector database project.

Infrastructural developments included completion of a major upgrade to the network environment, covering the replacement of 72 personal computers, installation of MS Windows 2000 Advanced Server with Enterprise Back Office Products, and the IBM Series Operating System V4 R5. The Computer Department worked closely with an IBM team engaged to undertake a comprehensive assessment of the Bank's firewall, AS400, NT and network security.

Implementation of the resulting recommendations are to be concluded in early 2002, along with an information security policy. The Department also initiated the search process which culminated in the selection of the consultancy firm, Providence Technology Group, to undertake the development of a Three-Year Technology Plan for the Bank.

ADMINISTRATION

The Board

The Bank welcomed the reappointment of Dr. Pandora Johnson and Mr. Carleton Williams, CBE to the Board of Directors for a period of one year, with effect from 1 January 2001.

During 2001, the Bank undertook several major capital projects and also completed works that were initiated in 2000. A contract was signed with Brokell Construction Co. Ltd. for the fit-out construction works to the Trimark Building, situated on the corners of Trinity Place and market Street. The building, which was leased from Trimark Property Holdings in May 2001, will accommodate the relocation of the Bank Supervision Department along with the On-Site Examination Team. The consultant for the project was Mr. Michael Foster of Arconcepts Ltd., who was responsible for design and supervision of the construction.

The restoration of Verandah House, which begun in 2000, under a contract awarded to Hunt's Construction Company and supervised by Project Architect, Ms. Alicia Oxley of the Ministry Works, was also completed. It presently serves as the executive headquarters of The Bahamas Institute of Bankers, with an official opening held on December 5, 2001.

Overseas Meetings and Seminars

During the year, Governor Julian Francis represented the Bank at several overseas meetings. In January, he participated in the Commonwealth High Level Consultations on "Harmful Tax Practices" held in Washington, D.C., in April, attended a forum on "Reserves Policy Issues" in Barbados and, during May, participated in the Annual Caribbean Supervisors Conference in St. Kitts, the Central Bank Governors Meeting in Tobago and Free Trade Area of the Americas (FTAA) Meetings in Panama, which he also attended during July and September. Governor Francis also attended meetings of the Bank of England and Bank for International Settlements (BIS) in June, held in the United Kingdom and Switzerland, respectively. During November, the Governor traveled to Trinidad for the CARICOM Central Bank Governors Meeting and then to Barbados for the inauguration of the Caribbean Regional Technical Assistance Centre (CARTAC).

In addition to attending meetings of the Free Trade area of the Americas Negotiating Group on Services in Panama City and a workshop on "Non-Bank Financial Institutions: Development and Regulation" at the World Bank Headquarters, Washington, D.C. during February/March, Deputy Governor, Mrs. Wendy Craigg, also attended the Executive Committee Meeting of the Caribbean Centre for Monetary Studies (CCMS) in Trinidad and Tobago during April/May and the XXXIII Annual Monetary Studies Conference in Belize City, in November.

Several Heads of Department traveled abroad to meetings and conferences related to their respective areas. Bank Supervision Manager, Mr. Iqbal Singh, attended the IV Assembly of the Association of Supervisors of Banks of the Americas (ASBA) in Lima, Peru, the Offshore Group of Banking Supervisors (OGBS) Annual Meeting in Gibraltar, the OGBS Meeting hosted by the UK Financial Services Authority in London and the "Contact Meeting on Onshore and Offshore Supervisory Agencies" hosted by the Financial Stability Institute (FSI), Bank for International Settlements (BIS) in Switzerland. At each of these meetings, Mr. Singh was accompanied by a member of the Bank Supervision Department's management team. Mr. W. Lester Bowleg, Human Resources Manager, accompanied by the Department's Deputy Manger, traveled to Barbados for the 4th Annual Conference of Human Resources Managers of Central Banks in the Caribbean. Computer Manager, Mr. Bert Sherman, along with the Deputy Manager (Investment), Banking Department, attended the XXIX Meeting on Central Bank Systematization in Buenos Aires, Argentina.

Among other meetings and conferences attended by Bank staff during the year, were several hosted by CEMLA exclusively or with other institutions. These included a conference on "Payment and Settlement System" and a Meeting of the Working Group on "Payment Issues of Latin America and the Caribbean", the Regional Meeting on Central Bank Websites hosted with the BIS, the VI Meeting on Communication and Central Banking, co-hosted by the Bank of Mexico and the VI Meeting of Central Bank Auditors co-hosted by the Central Bank of Chile. The Bank was also represented at the Sub-Committee Meeting of the Caribbean Group of Banking Supervisors, Caribbean Financial Action Task Force (CFATF) Plenary Meetings XIII and XIV, Technical Team Meetings of the Council of CARICOM Central Bank Governors, a meeting of the CARICOM Secretariat's Technical Team on "Policy Coordination and Convergence", Scotia Capital's conference on "Managing Reserves in the New Millennium"; the IMF's Coordinated Portfolio Investment Survey Meeting; the International Conference on "Globalization: Issues and Challenges for Small States" hosted by the World Bank and Eastern Caribbean Central Bank; Currency International's Currency Conference; the J.D. Edwards Focus Conference; IBM's AS400 Technical Conference; the XXXIII Annual Monetary Studies Conference co-hosted by the Caribbean Centre for Monetary Studies and the Central Bank of Belize; the 14th World Conference of Banking Institutes; the Special Libraries Association's 92nd Annual Conference and the Annual Convention and Education Forum of the International Association of Administrative Professionals (IAAP).

In 2001, there was also broad participation by staff in overseas seminars and workshops covering a wide range of topics. Among these were a number of seminars co-hosted by the Financial Stability Institute (FSI), which included a workshop on "Promoting Financial Stability: the Role of the Central Bank" which was co-hosted by CEMLA; a seminar on "On-Site/Off-Site Supervision" and another on "Corporate Governance, E-Banking and Supervisory Structure", co-hosted by Bank van de Nederlandse, and the FSI/BIS 14th International Banking Supervisory Seminar. There was also participation in a Government Debt Management Seminar hosted by the Centre for Banking Studies, Bank of England; the UK Financial Services Authority's Annual International Seminar on "Risk and Regulation in Changing Financial Markets"; a workshop on "Macroeconomic and Aggregate Prudential Indicators of Financial System Soundness" hosted jointly by the IMF and the Central Bank of Barbados; a World Bank workshop on "Developing Domestic Bond Markets in Latin America"; CEMLA's workshop on "The New Capital Accord: Credit Risk Mitigation" and seminar on "Derivatives and E-Banking"; CFATF's Mutual Evaluation Examiners Training Workshop"; the Central Bank Librarians Workshop hosted by the IMF; a seminar on "Prevention of Money Laundering and Criminality – National and International Legal Aspects", hosted jointly by CEMLA, the BIS and Central Bank of Brazil; a workshop on "Competition Law and Policy" hosted by the Caribbean Regional Negotiating Machinery and the Inter-American Development Bank (IDB); a seminar on "The Security Features of the Euro" co-hosted by the Bank of Jamaica and De la Rue Currency; the American Management Association's Fundamentals of Human Resources Management Seminar; an Operational Auditing Seminar hosted by the Institute of Internal Auditors, and the Japanese Government's Programme for Young Officials Seminar on "Financial Systems for Panama and the Caribbean".

Staff Training, Development and Relations

With on-going emphasis on capacity building, the Bank continued its support of domestic training programmes, organized a number of in-house training sessions and sponsored the participation of staff in a large number of technical courses overseas. Included in the latter were courses hosted by regional central banks, the Federal Reserve System, the IMF, the Commonwealth Secretariat, the World Bank, Crown Agents, the Federal Deposit Insurance Corporation, the Toronto International Leadership Centre for Financial Sector Supervision, Federal Reserve Bank of Atlanta, Centre for Central Banking Studies, Bank of England and the International Law Institute.

The Bank also continued to support academic upgrading and, in addition to underwriting the cost of part-time studies for employees enrolled at The College of The Bahamas, granted an award for full-time study to Sherrieann Cox, Senior Secretary II, Accounts Department.

At the annual Long Service Awards Ceremony in January, the Bank recognized two employees for thirty years of service, ten for twenty years and five for ten years of service.

Public Relations

The Bank continued to support the promotion and development of Bahamian art and culture, hosting a total of 12 exhibitions during 2001, including the 18th Annual Art Competition & Exhibition in November.

Staff Complement

As at December 31, 2001, the staff complement was 226. Twenty-eight persons were recruited, 11 resigned and 1 retired.

Acknowledgements

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

MANAGEMENT'S REPORT

The Central Bank of The Bahamas' Financial Statements for the year ended December 31, 2001, along with comparative figures for 2000, are shown on pages 36 to 52. Total assets of the Bank increased by $34.6 million (6.9%). Growth was principally supported by a $63.4 million (44.1%) expansion in "Other Assets" to $207.4 million, as holdings of Bahamas Government Treasury Bills increased by $32.5 million (49.1%) to $98.8 million and the portfolio of Bahamas Government Registered Stock rose more than threefold to $34.0 million. External assets decreased by $30.1 million (8.8%) to $312.4 million, led by a $74.8 million (62.7%) decline in foreign currency deposits to $44.4 million, which contrasted with a $45.8 million (21.8%) expansion in marketable securities to $256.2 million.

Under the Bank's liabilities, the increase was concentrated in demand obligations which advanced by $32.8 million (8.3%) to $426.9 million. Currency in active circulation was higher by $2.6 million (1.2%) at $218.6 million, and deposits held for banks, by $43.9 million (30.3%) at $188.7 million. However, deposits for the Government and Bahamas Government Agencies contracted by $10.1 million (44.5%) to $126 million. "Other Liabilities" declined by $0.5 million (3.5%) to $12.9 million, while capital and reserves grew by $2.2 million (2.4%) to $93.2 million.

Despite growth in the "Other Asset" category, the Banks' operating income decreased by $3.6 million (13.0%) to $24.1 million; and with operating expenses higher by $4.1 million (2.7%) at $19.3 million, profits from operations fell to $4.7 million from $12.4 million in 2000. There were no adjustments for exchange rate gains and loss provisions in 2001, therefore the net profit for the year stood at $4.7 million vis-à-vis $11.9 million last year.

The Central Bank of The Bahamas
Financial Statements

31 December 2001

BDO Mann Judd	**Pannell Kerr Forster**
P O Box N 10144	**P O Box N 8335**
Nassau, Bahamas	**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 2001 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 2001 and the results of its operations, cash flows, and changes in capital and reserves 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

26 February, 2002

THE CENTRAL BANK OF THE BAHAMAS

BALANCE SHEET
As at 31 December 2001
(Expressed in Bahamian Dollars)

	Notes	2001 $	2000 $
ASSETS			
FIXED ASSETS	4	13,217,814	11,976,086
EXTERNAL ASSETS	5		
Foreign currency deposits		44,447,898	119,260,566
Marketable securities issued or guaranteed by foreign governments	6	256,237,765	210,434,632
Accrued interest receivable on foreign currency		3,760,157	4,621,071
International Monetary Fund	7		
Bahamas reserve tranche		7,840,663	8,128,765
Special drawing rights		112,181	115,819
		312,398,664	342,560,853
OTHER ASSETS			
Bahamas Government treasury bills	8	98,804,019	66,254,884
Bahamas Mortgage Corporation bonds	9	300,000	300,000
Advances to the Bahamas Government	10	56,945,016	53,518,608
Bahamas Government registered stocks	11	34,009,100	8,876,700
Loans to Bahamas Government agency	12	7,150,000	7,550,000
The Bridge Authority bonds	13	532,700	510,100
Accrued interest, receivables and other accounts		9,660,779	6,897,685
		207,401,614	143,907,977
		$533,018,092	$498,444,916

The notes on pages 43 to 52 form an integral part of these financial statements.

THE CENTRAL BANK OF THE BAHAMAS

BALANCE SHEET

As at 31 December 2001

(Expressed in Bahamian Dollars)

	Notes	2001 $	2000 $
LIABLITIES, CAPITAL AND RESERVES			
DEMAND LIABILITIES			
Notes in circulation		206,621,862	204,578,852
Coins in circulation		11,958,653	11,420,378
Deposits by commercial banks	14	188,735,996	144,844,962
Deposits by the Bahamas Government and Bahamas Government agencies		12,604,513	22,707,080
Deposits by international agencies	15	547,571	861,701
Accrued interest, payables and other accounts		3,978,633	2,704,215
Provision for payment into the Consolidated Fund		2,500,000	7,000,000
		426,947,228	394,117,188
OTHER LIABILITIES			
International Monetary Fund allocation of special drawing rights	16	12,856,345	13,328,747
CAPITAL AND RESERVES			
Authorised and fully paid capital		3,000,000	3,000,000
Exchange equalisation account	17	740,400	577,779
Contingency reserve	17	750,000	750,000
Other reserves	17	25,057,035	28,603,624
General reserves	17	63,667,084	58,067,578
		93,214,519	90,998,981
		$533,018,092	$498,444,916

The statements were approved by the Board of Directors and authorised for issue on 26 February 2002 and are signed on its behalf by:

Governor　　　　Director

The notes on pages 43 to 52 form an integral part of these financial statements.

THE CENTRAL BANK OF THE BAHAMAS

STATEMENT OF PROFIT

For The Year Ended 31 December 2001
(Expressed in Bahamian Dollars)

	Notes	2001 $	2000 $
INCOME	18	24,068,938	27,680,915
EXPENSES	19	19,353,400	15,294,945
OPERATING PROFIT		4,715,538	12,385,970
Gain on movement of currency exchange rates		—	13,851
The Deposit Insurance Corporation provision	20	—	(500,000)
NET PROFIT FOR THE YEAR		$4,715,538	$11,899,821

The notes on pages 43 to 52 form an integral part of these financial statements.

THE CENTRAL BANK OF THE BAHAMAS

STATEMENT OF CHANGES IN CAPITAL AND RESERVES

For The Year Ended 31 December 2001
(Expressed in Bahamian Dollars)

	Authorised and fully paid capital	Exchange equalisation account	Contingency reserve	Other reserves	General reserves	Total
	$	$	$	$	$	$
Balance at 31 December 1999	3,000,000	427,668	750,000	22,221,371	59,700,121	86,099,160
Net profit for the year	—	—	—	—	11,899,821	11,899,821
Transfer of unrealised exchange gains	—	150,111	—	—	(150,111)	—
Transfer from general reserves to other reserves	—	—	—	6,382,253	(6,382,253)	—
Transfer to Consolidated Fund	—	—	—	—	(7,000,000)	(7,000,000)
Balance at 31 December 2000	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	—
Proposed 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

The notes on pages 43 to 52 form an integral part of these financial statements.

THE CENTRAL BANK OF THE BAHAMAS

STATEMENT OF CASH FLOWS

For The Year Ended 31 December 2001
(Expressed in Bahamian Dollars)

	2001 $	2000 $
FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	4,715,538	11,899,821
Adjustment for items not involving the movement of cash:		
Amortisation of (premiums)/discounts on marketable securities	(7,803,133)	634,712
Depreciation	1,016,589	953,173
The Deposit Insurance Corporation provision	—	500,000
Unrealised exchange gains	(32,303)	(265,503)
Interest income	(20,945,667)	(25,683,016)
Interest expense	450,637	588,963
Net cash used in operating activities before changes in operating assets and liabilities	(22,598,339)	(11,371,850)
(Increase)/decrease in operating assets:		
International Monetary Fund – Special Drawing Rights	(180,662)	(95,206)
Receivables and other accounts	(2,273,855)	(570,581)
(Decrease)/increase in operating liabilities:		
Notes in circulation	2,043,010	(8,185,658)
Coins in circulation	538,275	980,347
Deposits by commercial banks	43,891,034	(5,498,772)
Deposits by The Bahamas Government and Bahamas Government agencies	(10,102,567)	1,437,253
Deposits by international agencies	(314,130)	(230,729)
Payables and other accounts	1,274,418	602,782
Net cash provided/(used) by operating activities	$12,277,184	$(22,932,414)

The notes on pages 43 to 52 form an integral part of these financial statements.

THE CENTRAL BANK OF THE BAHAMAS

STATEMENT OF CASH FLOWS

For The Year Ended 31 December 2001
(Expressed in Bahamian Dollars)

	2001 $	2000 $
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	(95,000,000)	(24,555,625)
Proceeds from maturities of marketable securities	57,000,000	23,000,000
Purchases of fixed assets	(2,258,317)	(1,431,120)
Purchases and rediscounts of Bahamas Government treasury bills	(393,747,305)	(140,253,818)
Proceeds from sales and maturities of Bahamas Government treasury bills	361,198,170	87,964,816
Advances to Bahamas Government	(13,926,408)	—
Proceeds from Bahamas Government	10,500,000	—
Purchase of The Bridge Authority bonds	(74,000)	(9,700)
Proceeds from sales of The Bridge Authority bonds	51,400	110,000
Purchases of Bahamas Government registered stocks	(51,093,100)	(10,000,600)
Proceeds from sales and maturities of Bahamas Government registered stocks	25,960,700	6,706,000
Loan to Bahamas Government agency	—	(1,500,000)
Repayments of loan to Bahamas Government agency	400,000	400,000
Interest received	21,354,080	26,265,624
Net cash used by investing activities	(79,634,780)	(33,304,423)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment to the Consolidated Fund	(7,000,000)	(4,500,000)
Interest paid	(450,637)	(577,818)
Net cash used by financing activities	(7,450,637)	(5,077,818)
Net decrease in cash and cash equivalents	(74,808,233)	(61,314,655)
Cash and cash equivalents at beginning of the year	119,292,869	180,607,524
Cash and cash equivalents at end of the year	$44,484,636	$119,292,869
Cash and cash equivalents are comprised of the following:		
Foreign currency deposits	$44,447,898	$119,260,566
Cash on hand (included in accrued interest, receivables and other accounts)	36,738	32,303
	$44,484,636	$119,292,869

The notes on pages 43 to 52 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended 31 December 2001

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 2001, the Bank had 226 (2000: 210) 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.

3. ACCOUNTING POLICIES

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

Revenue recognition

Revenues are recognised under the accruals concept.

Foreign currencies

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

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

Fixed assets

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

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

Marketable securities issued or guaranteed by foreign governments

Marketable securities issued or guaranteed by foreign governments are stated at cost. The discounts and premiums are amortised over the maturity period.

3. ACCOUNTING POLICIES (cont'd)

Bahamas Government treasury bills

Bahamas Government treasury bills are stated at amortised cost. The discounts are amortised over the maturity period.

Bahamas Mortgage Corporation bonds

Bahamas Mortgage Corporation bonds are stated at cost which equates to nominal value.

Bahamas Government registered stocks

Bahamas Government registered stocks are stated at cost which equates to nominal value.

The Bridge Authority bonds

The Bridge Authority bonds are stated at cost which equates to nominal 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. The cost of such coins and the sales proceeds therefrom are 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 2001

4. FIXED ASSETS

	Land	Buildings & renovations	Office equipment	Computer software	Office furniture & fittings	Other fixed assets	Total
	$	$	$	$	$	$	$
COST							
1 January 2001	2,452,938	10,375,609	4,194,438	4,554,569	2,105,655	519,453	24,202,662
Additions	—	1,498,855	402,745	143,419	113,742	99,556	2,258,317
Disposals	—	—	—	—	—	(35,054)	(35,054)
31 December 2001	2,452,938	11,874,464	4,597,183	4,697,988	2,219,397	583,955	26,425,925
DEPRECIATION							
1 January 2001	—	2,668,150	3,008,309	4,314,414	1,861,191	374,512	12,226,576
Charge for the year	—	200,625	555,918	106,090	101,881	52,075	1,016,589
Disposals	—	—	—	—	—	(35,054)	(35,054)
31 December 2001	—	2,868,775	3,564,227	4,420,504	1,963,072	391,533	13,208,111
NET BOOK VALUE							
31 December 2001	$2,452,938	$9,005,689	$1,032,956	$277,484	$256,325	$192,422	$13,217,814
31 December 2000	$2,452,938	$7,707,459	$1,186,129	$240,155	$244,464	$144,941	$11,976,086

Buildings and renovations includes work in progress totalling $1,034,134 (2000: $739,079), which is not depreciated.

5. EXTERNAL ASSETS

External assets comprise of those assets defined as such by Section 18(1) of the Act. The Act also requires that the value of external assets shall not at any time be less than 50% of the value of the aggregate of the notes and coins in circulation and other demand liabilities of the Bank. At the year end, external assets represented approximately 73.70% (2000: 88.49%) 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 2001 and 2000, all such marketable securities held by the Bank matured within 5 years as noted below.

	2001	2000
	$	$
Within 60 days	8,989,952	7,999,754
60 days to 1 year	58,194,223	29,799,581
1 to 5 years	189,053,590	172,635,297
	$256,237,765	$210,434,632

Market value of these securities at the balance sheet date was $255,183,940 (2000: $212,734,550). These securities bear interest at rates varying between 4.25% and 7.50% (2000: 4.25% and 7.75%)

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:

	2001		2000	
	SDR (millions)	$	SDR (millions)	$
Quota	130.3	163,750,715	130.3	169,767,920
Subscription payments in promissory notes	(118.7)	(149,190,457)	(118.7)	(154,672,636)
Subscription payments in currency	(5.4)	(6,719,595)	(5.4)	(6,966,519)
Reserve tranche	SDR6.2million	$7,840,663	SDR6.2million	$8,128,765

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 $41,724,018 (2000: $43,782,447). 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 2.22% to 4.60% (2000: 3.33% to 4.85%).

8. BAHAMAS GOVERNMENT TREASURY BILLS

Bahamas Government Treasury Bills are discounted at rates ranging between 1.39% and 3.50% (2000: 1.22% and 2.49%) and mature as noted below:

	2001	2000
	$	$
Within 60 days	50,188,788	37,416,802
60 days to 1 year	48,615,231	28,838,082
	$98,804,019	$66,254,884

9. BAHAMAS MORTGAGE CORPORATION BONDS

These bonds bear interest at a rate of 2.00% (2000: 2.00%) per annum below the Prime rate and mature as noted below:

	2001	2000
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 8.44% (2000:10.00%) of the lesser of such revenues. Of those advances $19,926,408 (2000: $16,500,000) bears interest at rates between 2.90% and 4.90% (2000: 4.20% and 4.90%). The remaining advances were interest free during both 2001 and 2000. 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 7.97% (2000: 2.27%) 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 2001 or 2000.

Bahamas Government Registered Stocks bear interest at rates ranging between 5.15% and 9.50% (2000: 5.75% and 10.50%) and mature as noted below:

	2001 $	2000 $
60 days to 1 year	10,200	89,000
1 to 5 years	192,900	14,500
More than 5 years	33,806,000	8,773,200
	$34,009,100	$8,876,700

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% (2000: 2.00%) and mature as noted below:

	2001 $	2000 $
1 to 5 years	250,000	375,000
More than 5 years	6,900,000	7,175,000
	$7,150,000	$7,550,000

13. THE BRIDGE AUTHORITY BONDS

These bonds bear interest at rates ranging from 1.00% to 1.25% (2000: 1.00% to 1.25%) per annum over the Prime Rate, and mature as noted below:

	2001	2000
More than 5 years	$532,700	$510,000

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 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 2.22% and 4.60% (2000: 3.81% and 4.85%) 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) the Act, the Bank has determined that an amount of $3,546,589 should be transferred from other reserves to general reserves. In 2000 on account of $6,382,253 was transferred from general reserves to other reserves.

d. General reserves – Section 7(2) of the Act requires that 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, wich ever 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 $63,667,084 (2000: $58,067,578) equivalent to 15% (2000: 15%) of demand liabilities prior to a provision of $2,500,000 (2000: $7,000,000) to be paid into the Consolidated Fund.

NOTES TO THE FINANCIAL STATEMENTS
For The Year Ended 31 December 2001

18. INCOME

	2001 $	2000 $
Interest income	20,945,667	25,683,016
Other operating income	3,123,271	1,997,899
	$24,068,938	$27,680,915

19. EXPENSES

	2001 $	2000 $
General & administrative expenses	10,587,761	6,392,839
Staff costs	7,298,413	7,359,970
Depreciation expense	1,016,589	953,173
Interest expense	450,637	588,963
	$19,353,400	$15,294,945

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 during the year ended 31 December 2000. There were no movements on this provision during the year ended 31 December 2001.

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	$
2002	331,086
2003	316,900
2004	76,078
	$724,064

22. CONCENTRATIONS OF ASSETS AND LIABILITIES

The Bank has the following concentrations of assets and liabilities.

EXTERNAL ASSETS	**2001**	**2000**
Geographic Region	%	%
North America	95.95	92.48
Europe	0.22	0.74
Other	3.83	6.78
Industry		
Financial Sector	100.00	100.00
OTHER ASSETS	**2001**	**2000**
Geographic Region	%	%
Bahamas	100.00	100.00
Industry		
Government Sector	100.00	100.00
DEMAND LIABILITES	**2001**	**2000**
Geographic Region	%	%
Bahamas	99.87	99.78
Other	0.13	0.22
Industry		
Financial Sector	100.00	100.00
OTHER LIABILITIES	**2001**	**2000**
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 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:

	2001 $	2000 $
Present value of funded obligations	(22,338,308)	(20,742,062)
Fair value of plan assets	26,257,936	24,260,148
	3,919,628	3,518,086
Unrecognised actuarial gains	(937,347)	(596,165)
Net assets calculated in accordance with paragraph 54 of International Accounting Standard 19	2,982,281	2,921,921
less: amounts not recognised as assets in accordance with paragraph 58 of International Accounting Standard 19	(988,591)	(2,367,972)
	$1,993,690	$553,949

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

	2001 $	2000 $
Current service cost	816,375	717,229
Interest cost	1,416,855	1,303,602
Expected return on plan assets	(1,707,536)	(1,572,649)
	525,694	448,182
less: decrease in amounts limited by paragraph 58 of International Accounting Standard 19	(1,379,381)	(422,110)
	$(853,687)	$26,072

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

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

	2001 $	2000 $
Net asset at beginning of the year	553,949	—
Net income (expense) recognised in the statement of profit	853,687	(26,072)
Employer contributions	586,054	580,021
Net asset at end of the year	$1,993,690	$553,949

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

	2001	2000
Discount rate	6.75%	6.75%
Expected return on plan assets	7.00%	7.00%
Expected rate of salary increase	7.30%	7.08%
Average expected remaining working lives of employees (years)	13.5	16.9

The actual return on plan assets during the year was $1,731,331 (2000: $1,653,494).

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