The Central Bank of The Bahamas

Annual Report & Statement of Accounts

For The Year Ended

December 31, 2000

THE CENTRAL BANK · OF THE BAHAMAS ·

2000

ANNUAL REPORT

Contents

Note:

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

Directors and Senior Officials

at December 31, 2000

Board of Directors

Julian W. Francis - Chairman

Wendy M. Craigg

Ruth Millar (ex officio), Financial Secretary, Ministry of Finance

Orry Sands

Michael Cartwright

Gregory Cleare

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 Resources*

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 23, 2001

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 2000. 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

Preliminary indications are that economic fundamentals for the Bahamian economy remained reasonably positive and strong during 2000, despite a slowdown in tourism output and a leveling off in construction investments from the robust upturn registered in recent years. The outturn was supported by further progress in fiscal consolidation efforts which, alongside a continuation of mild, though firming, inflation and favourable credit conditions, reinforced consumer confidence and sustained a positive environment for investment and employment. Reduced foreign exchange inflows moderated the growth in the monetary aggregates and, in the context of steady domestic credit expansion, occasioned a substantial falloff in bank liquidity. Buoyant consumer demand, higher energy prices and lower net services inflows combined to cause a deterioration in the external current account deficit, which was not entirely covered by net foreign investment inflows on the capital account, hence a decline in external reserves.

Monetary conditions during 2000 featured a near halving in net free cash balances to $41.6 million from $80.9 million at end-1999, as the steadied growth rate of domestic credit outpaced deposit base gains. Nevertheless, bank liquidity was sufficiently buoyant to influence a further decline in commercial banks' weighted average deposit rate, by 53 basis points to 3.97%. Amid a more competitive credit environment, the weighted average loan rate fell by 10 basis points to 11.74%, to occasion a widening in the average interest rate spread on loans and deposits by 43 basis points to 7.77%. The average 90-day Treasury bill rate also receded by almost a full percentage point to 0.99%, but base rates—commercial banks' Prime and the Central Bank's Discount Rate—were unchanged at 6.00% and 5.75%, respectively.

Reflecting a slowdown in tourism and investment-related net foreign currency inflows, money supply growth (M3) moderated to 9.3% from 11.8% in 1999, placing the overall stock at $3.5 billion vis-à-vis $3.2 billion a year ago. While fixed deposits advanced at a stronger 9.3% pace as opposed to 4.4% in 1999, the rate of accretion to both savings deposits and demand balances slackened significantly to 8.8% and 7.1% from 25.1% and 29.5%, respectively. A similarly marked fall-off was noted for the increase in the currency component, to 2.0% from 18.2% in 1999 when precautionary cash holdings were boosted in anticipation of Y2K developments.

Growth in domestic credit was relatively unchanged at 11.7%, with the outstanding stock at $4.3 billion vis-a-vis $3.8 billion in 1999. The rate of expansion in private sector credit advanced to 14.7% from 11.2% last year, as the reduced growth rate of consumer credit (9.6%) was offset by a near doubling in net lending for residential mortgages (15.6%) as well as sizeable net credit gains for the construction and manufacturing sectors. The public sector's improved budgetary performance was evidenced in a reduction in its indebtedness to banks (2.5%). Notably, the increase in net claims on central government slackened to 2.6% from 9.5% in 1999, while the public corporations' debt declined by 17.1% in contrast to a 26.8% hike in 1999 which largely financed

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

	1998	1999	2000	
Occupied Hotel Room Nights	(5.9)	13.5	5.3	
Total Arrivals	(3.1)	9.0	15.2	
Construction Starts - Value	(64.3)	(0.6)	16.0	**
Construction Completions - Value	187.9	(7.4)	(11.1)	**
Electricity Generation (mwh)	8.7	(0.7)	N/A	
Water Consumption (gals.)	3.0	(0.1)	1.2	
Retail Price Index	1.3	1.3	1.6	

SOURCE: The Central Bank of The Bahamas
**YTD—September

the downsizing exercise in the telecommunications corporation.

On the fiscal front, the budget performance in the first six months of FY2000/01 indicated a surplus of $12.5 million following a $16.0 million deficit in the corresponding period of FY1999/00. A major influence was the 5.1% increase in revenue collections, which was reinforced by a marginal 1.4% falloff in total outlays. Current spending was virtually stable at $391.9 million, despite the approved lump sum payments to civil servants and salary increases for the Police and the Judiciary. Outlays for capital development projects, however, were reduced by 19.9% to $31.4 million. Budgetary financing for the June-December period resulted in net repayment on the Direct Charge of $2.3 million. However, net borrowings in the first half of the calendar year produced a $5.0 million hike in the Direct Charge on Government to $1.5 billion for 2000. Government guaranteed borrowings of the public sector declined by 3.1% to $356.9 million, reducing the National Debt by $6.3 million (0.3%) to $1.88 billion at end-2000.

Preliminary indicators of tourism output suggested strong growth in visitor volumes but more modest expenditure improvement as stopover activity relied primarily on competitive pricing gains. Although total visitor arrivals rose further by 15.2% to a record 4.2 million, growth in air traffic which tracks long stay visitors moderated sharply to 3.0% from 10.3% in 1999. Confirming the industry's competitive resilience, however, hotel room revenues grew by 18.3% benefiting from a 12.3% appreciation in the average room rate to almost $150 per night and a 5.3% increase in room nights sold. Nevertheless, the latter gain trailed a larger increase in hotel sector capacity, resulting in a marginally reduced average occupancy rate of 67.2% vis-à-vis 68.6% in 1999. The continued reemergence of The Bahamas as a premier Caribbean cruise destination was illustrated in the 23.2% hike in sea visitors and cruise passengers relative to last year's 8.2%.

Consumer price inflation, measured by changes in the average Retail Price Index, advanced to 1.6% in 2000 from 1.3% in 1999. Cost increases were once again dominated by the education component which posted a steady advance of 11.9%, but were more strongly influenced by the oil price led upturn in transport & communications costs and accelerated average price gains in food & beverage prices. More tempered average price increases were recorded for medical & health care items, and furniture and household operations.

In the construction sector, preliminary data for the first nine months of 2000 indicated a slowing in activity, as evidenced by reduced investments in commercial and residential projects. Buoyed by lending for new construction, the value of building starts was higher by some 16.0%, comprising increases of 18.5% and 3.4% for residential and commercial estimates. Nevertheless, the value of projects completed during the period contracted by 11.1%, with residential values reduced by 5.7% and commercial by 21.0%. As regard forward looking indicators, building permits granted declined in value by 8.8%, with the respective residential and commercial approvals falling 4.2% and 24.8%.

On the external account, the current account deficit widened to an estimated $560.3 million from $406.1 million in 1999. Among the main influences was the 10.0% expansion in the merchandise trade deficit to $1,452.2 million, primarily explained by the increased demand for construction and durable goods alongside the sharp rise in the oil bill. Another key contributing factor was the 2.0% contraction in net invisible receipts to $918.0 million, linked to the resumption of net outflows under non-merchandise insurance following 1999's net claims settlements associated with Hurricane Floyd. Meanwhile, net factor income outflows rose by 34.0%, although modest offsets were provided by the 8.8% increase in net tourism inflows and the 14.2% advance in net transfer receipts.

The counterpart capital and financial account surplus narrowed to an estimated $403.0 million from $583.6 million in 1999, but was the fourth highest on record. With the winding down of large tourism infrastructure projects, net private external borrowings decreased to $209.8 million from $361.2 million in 1999. This offset a 13.9% increase in net direct equity inflows to $143.5 million; and strengthening demand in the second homes market, particularly in New Providence and Grand Bahama, pushed net real estate sales almost five-fold higher to $106.5 million. The reduced financial surplus also included a $27.8 million contraction in domestic banks' short-term external liabilities relative to the $91.8 million increase in 1999, and a more than doubling in the public sector's net external debt repayment to $12.6 million.

FISCAL OPERATIONS

1999/00 Performance

During FY1999/00 the estimated fiscal deficit was almost halved to a preliminary $38.0 million from $70.7 million in FY1998/99, and was some 43.1% less than the budget target. In particular, the healthy economy supported overall revenue growth of 14.3% to $918.5 million, exceeding the budget by 2.4%; while expenditures advanced by 9.4% to $956.5 million—approximately 0.7% below that provisioned.

Relative to FY1998/99, tax collections rose strongly by 15.4% to $840.0 million as all categories, with the exception of departure and property taxes, exceeded expectations. Taxes on international trade and transactions, at 60.2% of total revenues, advanced by 20.3% to $553.0 million or some 3.2% above forecast. Growth was also registered for selective taxes on tourism services (35.3%); departure taxes (6.2%); property taxes (6.5%); motor vehicle taxes (7.5%) and stamp taxes on financial and other transactions (1.4%). Business and professional licence fees, which decreased by 6.2% to $54.9 million, still surpassed the budgeted outcome by 6.4%, due to stronger than expected international business companies registration.

Non-tax revenue rose by 3.2% to $78.2 million, but fell short of the budgeted amount by 2.8%. A 9.9% decrease in government property income to $24.9 million was more than offset by the 9.9% advance in fines, forfeitures and administrative fees to $52.0 million, and incrementally increased receipts from sales of government property.

As regard expenditure trends, current spending was contained some 2.5% below the budget target, rising by 9.4% to $817.8 million and net lending was 11.1% higher than anticipated at $32.1 million. Capital outlays were boosted by 12.4% to $106.7 million, also exceeding the budget by 11.3%. Under current expenditure, the 5.8% decrease in government consumption to $528.0 million reflected the shifting of several health entities to the Public Hospitals Authority (PHA). This development, along with increased budgetary support for the College of The Bahamas, Old Age Pensions, and Hurricane Floyd assistance, resulted in a more than doubling in subsidies and non-interest transfers to $195.4 million. Lower domestic interest rates and a declining foreign debt stock resulted in a 4.8% reduction in interest payments, in contrast to a budgeted increase.

As regard public sector investments, both capital formation and the acquisition of assets rose by 12.8% and 11.5%, to $65.3 million and $34.5 million respectively, led by an almost fourfold increase in investments within the general administration category. Expenditures on public works infrastructure were almost unchanged from the previous fiscal year.

Budgetary financing during FY1999/00 was sourced primarily from the issuance of domestic bonds totaling $78.0 million, and $25.9 million in external borrowings. Debt amortization amounted to $19.6 million, of which $12.7 million was applied to internal obligations and $6.9 million to external liabilities.

2000/01 Budget

The 2000/01 Budget, tabled before Parliament on 31 May 2000, underscored the Government's commitment to promoting macroeconomic stability, consolidation of the budgetary finances and the maintenance of the fixed parity of the Bahamian dollar with the United States dollar. It envisaged that a buoyant revenue performance would allow for both the elimination of the budget deficit, and increased allocations to priority areas of health, education and training, public order and safety and social services, without any additional revenue enhancing measures.

In this context, both additional and extended tax

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

	FY1998/99		FY1999/00		FY2000/01	
	Approved Estimates	**Preliminary Estimates**	**Approved Estimates**	**Preliminary Estimates**	**Approved Estimates**	**Preliminary[1] Estimates**
Government Revenue	839,082	803,768	903,040	918,493	990,496	457,440
Government Expenditure (i+ii+iii)	892,567	874,511	970,344	956,539	990,803	444,970
i) Recurrent Expenditure	767,068	747,325	841,646	817,755	862,799	391,941
ii) Capital Expenditure	95,549	94,893	95,815	106,686	99,050	31,386
iii) Net Lending	29,950	32,293	32,883	32,098	28,954	21,643
Surplus/(Deficit)	(53,485)	(70,743)	(67,304)	(38,046)	(307)	12,470

SOURCE: Ministry of Finance
Compiled according to the IMF's Government Finance Statistics Format. [1]July - December, 2000

concessions were approved, aimed at encouraging further economic development in tourism, the Family Islands and electronic commerce (e-commerce). To promote computer literacy and to position The Bahamas as an international e-commerce centre, all remaining import duties on computer hardware and peripherals were eliminated. Additional emphasis has been placed on stimulating Family Island development through the growth of agriculture, eco-tourism and second home sales, with the duty exemptions on building materials and heavy machinery imports into the Islands being extended through 2002.

The previously granted duty exemption on imports of automobiles for taxicabs and omnibuses was extended for an additional year, aiding the small single proprietor public transport owner. Additional revenue rationalization measures were also introduced, including reduced duty rates on golf carts and video games, to 20% and 35% from 50% and 65%, respectively.

As summarized in the Budget Communication, revenue receipts are projected to increase relative to the 1999/00 budget, by 10.5% to $990.5 million (see Table 2). In particular, tax receipts are expected to grow by $83.3 million (10.2%) to $898.0 million, and non-tax income by $6.6 million (8.2%) to $87.0 million. An additional $5.5 million is to be sourced from grants as compared to $1.5 million in FY1999/00.

Amid an expanded tourism infrastructure, the budget anticipates a one-third rise in selective taxes on tourism related services. The general buoyancy in macroeconomic conditions is expected to generate an additional 10.5% in levies on international trade transactions, including a 10.6% boost in import duties and 10.1% in stamp taxes on imports. Higher targets were established for major non-trade related taxes, including business and professional licence fees (10.6%), property taxes (17.3%) and motor vehicles (11.9%).

Total expenditure—excluding an almost unchanged net lending allotment is budgeted to grow by $27.4 million (2.8%) to $990.8 million, largely reflecting provisions for a lump sum increase in base salaries for most civil servants as well as more substantial pay hikes for the Police and the Judiciary. Current expenditure of $862.8 million is set to exceed the 1999/00 provision by $24.1 million (2.9%) and, combined with the projected $93.9 million gain in revenue and grant receipts, should result in a balanced budget for FY2000/01. According to broad economic classifications, the bulk of recurrent outlays was allocated for wages and salaries (43.6%), followed by subsidies and other transfers (23.7%), goods and services (20.8%) and interest payments (11.8%).

Capital spending is projected to exceed the 1999/00 provision by 3.4% to $99.0 million, as the 25.7% hike in public works outlays will be augmented by a near doubling in planned investments for health. Some offset is to be provided by a halving in defence spending following the acquisition of new craft last year, and a 2.5% reduction in the education allotment at $23.6 million.

Budgetary requirements for FY2000/01 are expected to be met through long-term borrowings totaling $74.1 million, to be raised internally. An estimated $79.3 million was provisioned for debt repayment which, net of borrowings, should result in a slight decrease in the National Debt, and a more sizeable reduction in the foreign currency portion.

First Six Months FY2000/01

According to preliminary estimates, Government's budgetary operations for the first six months of FY2000/01 registered an improvement in the overall position supported by a combination of sustained expansion in the revenue base and expenditure restraint. The turnaround, from a deficit of $16.0 million to a surplus of $12.5 million, reflected a 5.1% hike in revenue receipts which was reinforced by a 1.4% reduction in outlays (see Table 2). Revenue collections and grants at $457.4 million approximated 46.2% of budgeted projections, while total expenditure—inclusive of net lending to the public corporations—amounted to $445.0 million or 44.9% of budgeted provisions.

On the revenue side, half-year tax receipts advanced by 6.5% to $425.9 million, to comprise 93.1% of total collections; while non-tax revenue receded by 10.1% to $31.5 million for 6.9% of the total. Among tax categories, the $27.2 million (10.2%) decline for taxes on international trade and transactions was largely associated with a reporting lag in the allocation of "undistributed" receipts among their relevant categories, which registered an offsetting increase to $67.0 million from $28.9 million in FY1999/00 and included significant amounts related to import duties. Also impacted by the lag were departure and property taxes which showed virtually stable positions vis-à-vis the previous year. In the context of generally favourable economic conditions, gains were recorded for selective taxes on tourism services of $2.6 million (22.8%); business and professional licence fees of $2.9 million (22.3%); motor vehicle taxes of $1.5 million (33.3%) and stamp taxes on financial and other transactions of $10.4 million (31.3%).

Weakness in non-tax receipts was primarily linked to a nearly one-third decline in income from fines, forfeits and administrative fees to $17.5 million. In a partial offset, income from public enterprises and other sources rose by $4.8 million to $13.8 million.

Under expenditure, current outlays, estimated at $391.9 million for the first six months of FY2000/01, were virtually stable vis-à-vis the previous year, and constituted approximately 45.4% of budgeted provisions. With the unwinding of last year's lump sum payment of $1,000 to each public servant, personal emoluments which represented 45.3% of current expenses declined by $8.9 million (4.8%), contrasting with a marginal increase in purchases of goods and services of $1.0 million (1.5%). Although interest payments were $3.2

million (7.0%) lower at $43.1 million, subsidies and other transfers grew by 12.0% based largely on higher subsidy payments to agencies such as The College of The Bahamas and the Public Hospitals Authority (PHA), and assistance to non-profit institutions, for a $7.8 million (5.6%) increase in transfer payments to $146.6 million.

For the six month review period, capital spending totaled $31.4 million or 31.7% of budgeted provisions and was $7.8 million (19.9%) below last year's level. Amid the winding down of major infrastructural investments, including hurricane related repairs, capital formation declined by $7.0 million (24.9%) and $3.6 million less was employed for the acquisition of assets. However, capital transfers to non-financial public enterprises rose to $3.4 million from less than $0.5 million in the comparable period. Net lending to the public corporations also grew by 8.7% to $21.6 million.

Consistent with the improving fiscal situation, budgetary financing requirements were comparatively reduced during the first half of FY2000/01; domestic bond proceeds of $55.8 million contrasted with new issues of $78.0 million last year, and external borrowings decreased to $0.9 million from $11.2 million. Debt repayment rose significantly to $59.0 million from $12.2 million in FY1999/00 and went largely towards retiring domestic currency obligations.

For 2000, the Direct Charge on Government advanced by $5.0 million (0.3%) to $1,518.9 million, sharply moderating 1999's increase of $81.4 million (5.7%). Bahamian dollar claims, which rose by 0.4% to $1,382.3 million, accounted for 91.0% of the aggregate, while the foreign currency component edged higher by 0.5%, for a lower share of 9.0%.

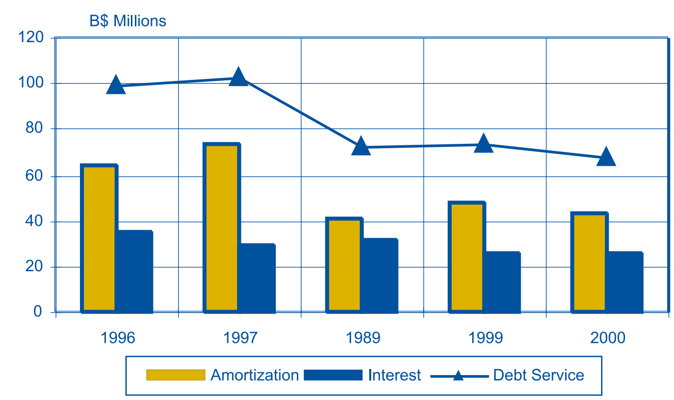
An analysis of the creditor composition of Bahamian dollar debt showed that the largest share, although comparatively reduced, was owed to public corporations (42.7%), followed by commercial banks with a similarly narrowed position (25.8%). Conversely, gains were registered for proportions held by private and institutional investors (21.9%) and the Central Bank (9.3%), with the smallest share (0.3%) due Other Local Financial Institutions. Discounting activities in Treasury bills, amid firming liquidity conditions, largely explained the reduced commercial banks' proportion and the coincident hike in the Central Bank's holdings.

Government guaranteed borrowings of the public corporations fell by $11.3 million to $356.9 million at end-December 2000. As a result, the National Debt contracted by $6.3 million (0.3%) to $1,875.7 million, following a $102.5 million (5.8%) advance in 1999.

Foreign Currency Debt

After declining by $4.3 million (1.1%) in 1999, public sector foreign currency debt fell further by $12.6 million (3.2%) to $377.7 million at end-2000 (see Table 3). Although the Government's component increased by $0.2 million to $136.5 million, this was completely countered by the $12.8 million (5.0%) reduction in the public corporations' portion to $241.2 million. According to creditor profile, multilateral institutions maintained the largest share (59.1%), followed by commercial banks (22.2%), private capital markets (13.2%), bilateral sources (5.3%) and offshore financial institutions (0.1%). The average maturity profile of the

Foreign Currency Debt Service



debt was just under 10 years, with more than 90% denominated in United States dollars.

Debt amortization payments totaled $42.7 million, some $5.6 million (11.6%) below the 1999 level. Total debt service declined by $5.2 million to $67.8 million which, combined with marginally increased exports of goods and non-factor services, resulted in a smaller debt service ratio of 2.8% relative to 3.0% in 1999.

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

	1997p	1998p	1999p	2000p
A. EXTERNAL DEBT	**330.2**	**339.4**	**353.0**	**351.9**
i) Government	94.5	90.5	107.0	115.9
ii) Public Corporations	235.7	248.9	246.0	236.0
Of Which Gov't Guaranteed	207.6	222.1	219.3	210.1
B. INTERNAL FOREIGN CURRENCY DEBT	**65.5**	**55.2**	**37.3**	**25.8**
i) Government	51.4	44.2	29.3	20.6
ii) Public Corporations	14.1	11.0	8.0	5.2
Of Which Gov't Guaranteed	1.7	1.7	1.7	1.7
C. TOTAL FOREIGN CURRENCY DEBT	**395.7**	**394.6**	**390.3**	**377.7**
D. DEBT SERVICE RATIO	**5.4**	**3.8**	**3.0**	**2.8**

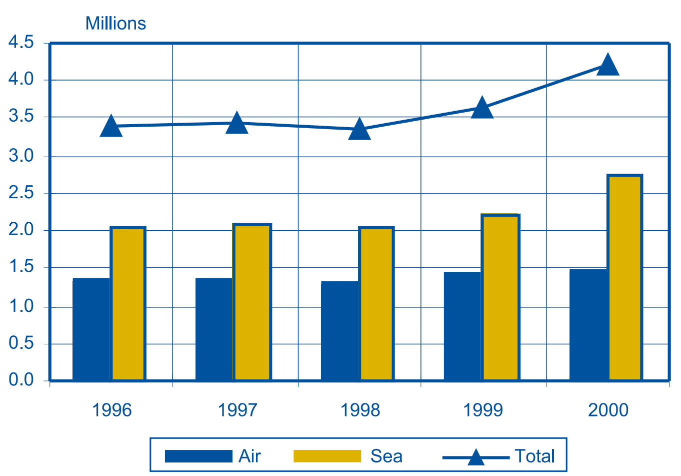
SOURCE: Treasury Accounts, Treasury Statistical Summary Printouts and Public Corporation's Quarterly Report

REAL SECTOR

Tourism

Preliminary data for 2000 signaled continued growth in the tourism sector, underlined by record-breaking gains in total arrivals and enhanced market competitiveness, as evidenced by higher room rates and revenues. For the second consecutive year, visitor arrivals were dominated by exceptionally strong sea activity in New Providence and the Family Islands, owing to increased cruise line traffic among major carriers such as Disney, Royal Caribbean and Holland American. Air activity featured Grand Bahama's significant recovery, which dampened the weakness experienced elsewhere.

Visitor Arrivals



After a 9.0% increase in 1999, total visitor count surged by 15.2% to 4.2 million in 2000, bolstered by a vigorous 23.2% advance in sea traffic to 2.72 million passengers vis-à-vis last year's 8.2% gain (see Table 4). Consistent with the average pattern emerging since 1996, approximately 96% of the growth in tourist arrivals was linked to sea arrivals, with the balance attributed to stopover visitors who tend to stay longer and spend more. Indications are that, with the advent of larger ships calling, the numbers of passengers delivered by each cruise line grew by 27% to 1,329 per call; the average number of calls increased by 0.2% to 1,892.

Growth in air traffic, indicative of the longer stay stopover trends, weakened to 3.0% from 10.3% a year earlier, for 1.48 million visitors.

Analysis by port of entry details showed moderated buoyancy in New Providence, with overall arrivals gaining 17.6% as against 20.9% in 1999 (see Table 5). Growth in air arrivals receded to 1.8% from 10.3% in 1999, whereas the expansion in sea arrivals intensified to 29.7% from 20.9%. Notable volume gains were posted in the Family Islands, where the increase in total arrivals rose nearly threefold to 21.2% based on sea visitors' growth of 31.6% which contrasted with a 5.4% decline in air traffic. Having substantially completed its renovation and expansion programme, Grand Bahama's previous year's 17.4% fall-off in arrivals was reversed to a modest gain of 1.1%. The 14.4% hike in air arrivals, as airlifts improved by 12.5%, mitigated the 6.7% downturn in sea arrivals.

Preliminary estimates compiled by the Ministry of Tourism suggested that visitors spent an estimated $1.678 billion in 2000, a gain of 5.7% over 1999. Growth in expenditure was primarily supported by appreciated hotel room rates which rose, on average, by 12.3% to $148.76 per night. Occupied room nights also grew 5.3%, to result in total room revenue growth of 18.3% which, however, was below 1999's gain of 37.0%. It is estimated that stopovers spent, on average, some $950 per visit compared to a per capita estimate of $75.00 per visit for cruise traffic.

On a destination basis, Grand Bahama recorded an 8.6% hike in the average room occupancy rate to 58.2% which, together with a similar boost in room rates to $63.90 per night, translated into a 30.8% growth in estimated room revenue. Similarly, available and occupied hotel room nights in New Providence rose by 5.9% and 2.1% respectively, although the occupancy rate was slightly reduced by 3.6% to 73.3%. Nevertheless, the

TABLE 4: Visitor Arrivals

Period	Air Arrivals	% Change	Sea Arrivals	% Change	Total	% Change	Occupied Room Nights	% Change
1995	1,317,078	(1.1)	1,922,077	(9.1)	3,239,155	(6.0)	1,906,275	3.9
1996	1,368,038	3.9	2,047,820	6.5	3,415,858	5.5	1,965,289	3.1
1997	1,368,107	0.0	2,085,660	1.8	3,453,767	1.1	1,963,568	(0.1)
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	2,199,358	5.3

SOURCE: Ministry of Tourism

TABLE 5: Growth in Tourist Arrivals (% Change)

PORTS OF ENTRY	1998	1999	2000	2000 Market Share (%)
Nassau/Paradise Island	(2.3)	20.9	17.6	63.9
Grand Bahama	(5.9)	(17.4)	1.1	16.1
Rest of Family Islands	(1.9)	7.2	21.2	20.0
Total	**(3.1)**	**(9.0)**	**15.2**	**100.0**

SOURCE: Ministry of Tourism

15.4% appreciation in average nightly room rates to $170.38 lifted revenues broadly higher by 17.9%. A similar pattern emerged in the Family Islands, where estimated room revenues rose by 7.8% on the strength of a 5.3% firming in the average nightly room rate to $155.51 and respective increases in available and occupied room nights of 10.6% and 2.4%.

Construction

According to available data for the first nine months of 2000, construction activity remained relatively strong vis-à-vis the comparative 1999 period, although receding from the brisk levels attained in the previous two years when commercial investments were boosted by tourism linked projects. Nevertheless, output continued to be sustained by encouraging developments in the residential segment.

Favourable interest rate conditions supported increased bank lending for mortgage financed construction activities. In the nine months to September 2000, the value of construction starts recovered by 16.0% to $142.7 million vis-à-vis a decline of 3.3% in 1999, although the number of projects fell by 3.3% to 790 (see Table 6). Investments were dominated by residential projects which rebounded in value by 18.5% to $119.9 million, but sustained a decline in number of 24 to 725 units. Activity was particularly strong in Grand Bahama, where the 34.6% gain in the value of starts reflected growth of the more upscale second homes market alongside ongoing hotel and commercial developments. Commercial starts registered a more moderate upturn in value of 3.4% to $22.6 million, which corresponded to a fall-off in number of 4 to 64 units. Public sector investments were also modest, at $0.2 million for a single project.

Construction completions fell in value by 11.1% to $150.5 million, which corresponded to a 19.6% hike in number to 1,060. Both residential and commercial projects decreased by 5.7% and 21.0% to $105.6 million and $37.8 million, respectively, although representing respective gains in number of 20.5% and 14.2% to 935 and 121. In the public sector, completions fell in value by one fourth to $7.1 million, for an unchanged number of units (4).

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

	1997	1998	1999	2000[1]
Building Permits				
Number	2,695	2,923	3,144	2,389
Value	316,387	472,177	641,815	423,679
Building Starts				
Number	1,153	1,234	1,065	790
Value	458,553	163,520	162,496	142,681
of which:				
i) Residential				
Number	1,042	1,138	976	790
Value	111,757	133,276	133,450	119,895
ii) Commercial				
Number	109	96	89	68
Value	346,328	30,244	29,046	22,570
iii) Public				
Number	2	-	-	-
Value	468	-	-	-
Building Completions				
Number	1,130	1,371	1,095	1,060
Value	171,030	492,318	455,799	150,529

SOURCE: Department of Statistics, Quarterly Bulletin of Construction Statistics
[1]YTD September

After increasing for two consecutive years, building permits issued—an indicator of future investments—contracted by 8.8% to $423.7 million. Housing permits declined in number by 5.8% to 2,013 and in value by 4.2% to $251.5 million. Commercial approvals increased by 21.9% to 367 units, but corresponded to a one quarter reduction in value to $142.2 million. Conversely, public sector permit values more than doubled to $30.0 million, covering some 9 projects as compared to 11 in the first nine months of 1999.

Prices

Consumer price inflation, as measured by changes in the average Retail Price Index, rose to 1.6% in 2000 from 1.3% in 1999 (see Table 7). The annual uptrend in inflation was more accelerated during the first half of the year, reaching as high as 2.0% in April but abating to 1.0% in the closing months as both fuel and education cost pressures dissipated.

Most of the annual firming was explained by a 2.3% oil led price hike in transportation & communication costs, which was concentrated largely in the first half of the year, alongside an accelerated increase in average prices for food & beverages of 1.6%. Although education costs still exerted significant influence on the overall Index, the rate of increase steadied at around 11.9%, amid the final round of programmed tuition increases at tertiary institutions. Average price advances were also recorded for furniture & household operations (2.0%), medical care & health (2.4%), clothing & footwear (0.7%) and housing (0.2%). However, some decrease was evident for recreation & entertainment services (0.9%) and for

TABLE 7: Average Annual Percentage Changes in Retail Price Index, New Providence (Oct./Nov. 1995=100)

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

SOURCE: Department of Statistics

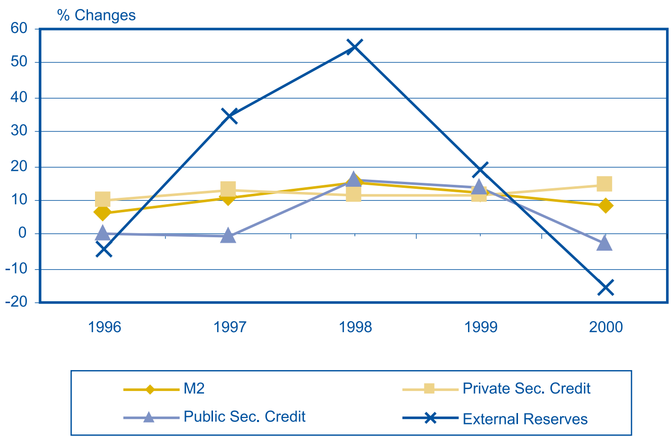
MONETARY DEVELOPMENTS

Monetary expansion slowed during 2000, in the context of reduced foreign currency inflows, which had a contractionary impact on both bank liquidity and external reserves. Domestic credit growth stabilized, and interest rate conditions remained supportive of further increases in mortgage lending.

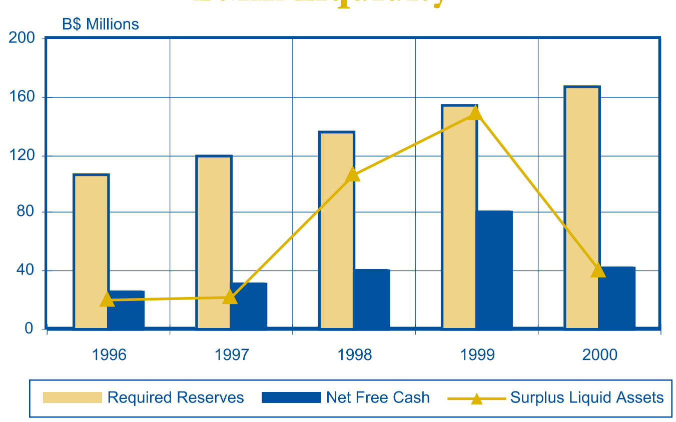
Liquidity

Liquidity, as measured by net free cash reserves of the banking system, was approximately halved to $41.6 million—equivalent to 1.2% of Bahamian dollar deposit liabilities; and the monthly average was 12.4% lower at $86.5 million. The broader surplus liquid assets were only 7.4% above the minimum statutory requirement vis-à-vis a surplus ratio of 29.3% in 1999, when net foreign investment and tourism flows accumulated at a faster pace. This secondary measure of liquidity peaked at $190.5 million in May, thereafter tapering off as banks accommodated seasonally increased domestic credit demand by reducing balances held with the Central Bank and rediscounting Treasury bills. The average monthly surplus liquid assets fell by 24.5% to $122.4 million.

Monetary Developments



Bank Liquidity



Foreign Exchange

Supply side foreign exchange developments generally mirrored trends in foreign earnings derived largely from tourism, net foreign direct investment inflows and external borrowings, with demand trends linked to prevailing private sector credit and domestic demand conditions and public sector debt service obligations. Central Bank transactions generated a net foreign currency sale of $90.5 million in contrast to net purchases of $49.4 million in 1999 and $106.5 million in 1998—the latter record attributable to extraordinary foreign investment inflows to finance tourism-related infrastructural projects. This reversal reflected a 24.3% hike in total sales to $582.6 million, alongside a 5.0% falloff in total purchases to $492.1 million as foreign currency inflows ebbed (see Table 8).

In turn, developments were largely influenced by a reduction in the Bank's net purchase from commercial banks, by two–thirds to $56.5 million, and exacerbated by a 13.9% increase in the net sale to the public sector. The latter featured a 42% hike in the net sale to the rest of the public sector to $112.4 million which completely mitigated the 30.6% drop in the net sale to Government to $34.6 million.

As a consequence, external reserves fell by 15.2% to $342.6 million at end-2000. From an opening position of $404.0 million, external reserves peaked in May at $482.9 million, before declining by $140.4 million over the remainder of the year, on account of the usual inventory rebuilding activities and seasonal pickup in consumer import demand. The average monthly balances for external reserves, however, declined less markedly, by 0.9% to $420.7 million.

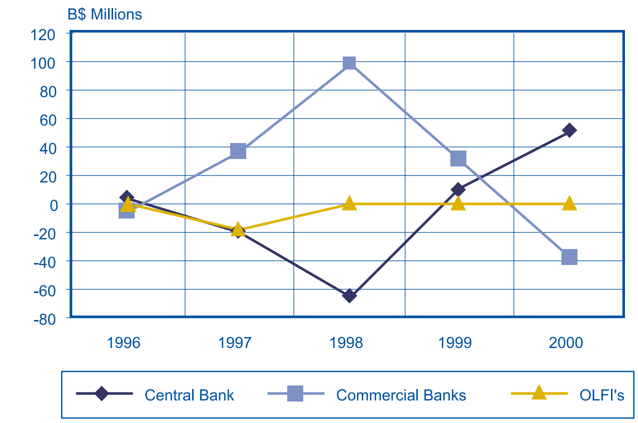
Money Supply

In the context of moderated gains in total foreign currency inflows, growth in the overall money supply (M3) abated to 9.3% from 11.8% in 1999. Movements in the various components were mixed, with slowed expansion in the more liquid deposit balances muting the accelerated advance in fixed maturities.

Narrow money (M1) growth slackened significantly to 6.1% from 27.1% in 1999, with the increase in the currency component decelerating to 2.0% from a Y2K induced hike of 18.2% last year. Growth in the more dominant demand deposits category also retreated to

7.1% from 29.5% in 1999, when investors positioned themselves to take advantage of several capital market opportunities.

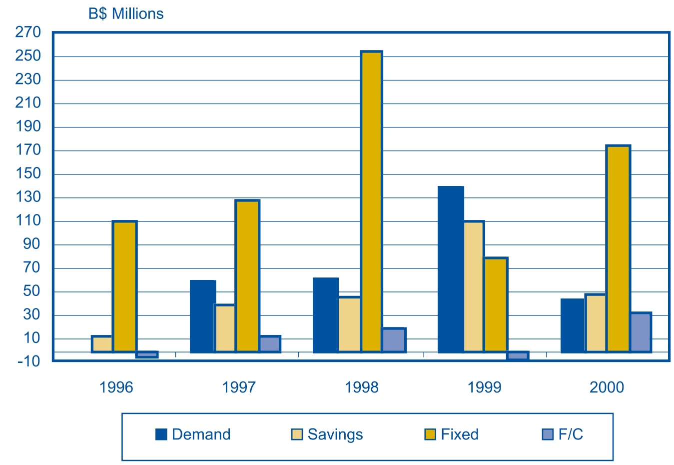
Changes in Net Claims on Government



Likewise, broad money (M2) expansion subsided to 8.4% from 12.3% in 1999, explained largely by decelerated gains in savings deposits (8.8% vis-a-vis 25.1%) following last year's boost from BaTelCo's staff redundancy payments. Meanwhile, fixed deposits growth more than doubled to 9.3%. A 62.8% increase in foreign currency deposits of residents—in sharp contrast to the year-earlier 12.7% contraction—elevated the expansion in the overall money supply to $302.9 million, for an end of year stock of $3,550.5 million.

As regards the deposit base, an analysis by depositor categories indicated that private individuals held the largest portion (55.9%), followed by business firms (23.0%), other private depositors (6.7%), and private financial institutions (3.7%); while the public sector's combined share was 10.7%. By currency composition, the Bahamian dollar component accounted for 97.5% of the total and foreign currency balances, the remaining 2.5%.

Changes in Bank Deposits



An analysis of deposits by value ranges indicated that individual balances valued at less than $10,000 accounted for 91.3% of all accounts, but only 12.1% of the aggregate value. Conversely, balances exceeding $50,000 constituted 2.6% of the total accounts, and a disproportionate 72.1% of the aggregate value. In the

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

	Commercial Bank			Government			Other			Total		
Period	Purchases	Sales	Net Purchase/ (Sale)	Purchases	Sales	Net Purchase/ (Sale)	Purchases	Sales	Net Purchase/ Sale	Purchases	Sales	Net Purchase/ (Sale)
Qtr.I	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	127,052	35,700	91,352	25,153	45,833	(20,680)	9,655	26,891	(17,236)	161,860	108,424	53,436
Qtr.II	90,343	58,869	31,474	67,132	34,398	32,734	26,331	16,921	9,410	183,806	110,188	73,618
Qtr.III	41,454	69,781	(28,327)	14,563	38,925	(24,362)	30,222	26,308	3,914	86,239	135,014	(48,775)
Qtr.IV	63,008	77,347	(14,339)	18,512	27,270	(8,758)	6,463	19,910	(13,447)	87,983	124,527	(36,544)
1997	**321,857**	**241,697**	**80,160**	**125,360**	**146,426**	**(21,066)**	**72,671**	**90,030**	**(17,359)**	**519,888**	**478,153**	**41,735**
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**	**117,377**	**(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)**

SOURCE: The Central Bank of The Bahamas

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

	Outstanding as at 1997	1998	Absolute Changes 1999	2000	Outstanding as at 2000
Destination					
Government (net)	419.8	32.8	42.9	13.1	508.6
Central Bank	125.6	(66.3)	10.5	51.0	120.8
Commercial Banks	291.2	98.9	31.6	(38.3)	383.4
Other Financial Local Institutions	3.0	0.2	0.8	0.4	4.4
Rest of Public Sector	88.5	47.9	36.5	(29.6)	143.3
Central Bank	4.3	0.8	1.7	1.6	8.4
Commercial Banks	84.2	47.1	34.8	(31.3)	134.8
Other Financial Local Institutions	-	-	-	0.1	0.1
Private Sector	2,551.0	285.7	318.4	463.5	3,618.6
Commercial Banks	2,488.2	279.1	304.1	439.7	3,511.1
Other Financial Local Institutions	62.8	6.6	14.3	23.8	107.5
Financing					
Liabilities to the private sector & rest of the public sector	2,507.5	396.7	343.4	302.9	3,550.5
Currency	109.7	15.9	22.8	3.0	151.4
Demand deposits	431.7	84.7	134.9	71.9	723.2
Savings deposits	394.7	43.4	110.1	52.4	600.6
Fixed Deposits	1,571.4	252.7	75.6	175.6	2,075.3
International reserves	219.5	119.3	65.2	(61.4)	342.6
Other net external liabilities ( ) = increase	(332.9)	(29.8)	(91.8)	(33.6)	(426.7)
Capital and surplus	422.7	52.9	86.5	110.3	672.4
Other (net)	(15.7)	(6.3)	58.7	(0.2)	36.5

SOURCE: The Central Bank of The Bahamas

mid-range, accounts valued between $10,001-$20,000 represented 6.1% of total deposits, followed by those ranged between $20,001-$30,000 (4.1%), $30,001-$40,000 (2.9%) and $40,001-$50,000 (2.7%).

Domestic Credit

Domestic credit growth steadied at 11.7% for 2000, with the increased private sector credit demand being

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

Sector	1998 $	1998 %	1999 $	1999 %	2000 $	2000 %
Agriculture	18.9	0.6	11.8	0.3	8.7	0.2
Fisheries	8.9	0.3	5.7	0.2	6.8	0.2
Mining & Quarrying	19.6	0.7	17.5	0.5	21.9	0.6
Manufacturing	58.4	1.9	62.7	1.9	93.1	2.4
Distribution	197.8	6.5	161.2	4.8	181.9	4.8
Tourism	186.6	6.2	215.0	6.4	230.8	6.0
Entertainment & Catering	30.9	1.0	25.5	0.7	38.1	1.0
Transport	29.9	1.0	45.0	1.3	62.7	1.6
Construction	156.1	5.1	239.1	7.1	334.7	8.7
Government	72.7	2.4	68.5	2.0	89.0	2.3
Rest of Public Sector	129.6	4.3	157.6	4.7	131.1	3.4
Private Financial Institutions	4.3	0.1	3.8	0.1	12.0	0.3
Professional & Other Services	140.4	4.6	130.0	3.8	126.6	3.3
Personal	1,910.8	62.9	2061.4	61.1	2294.9	59.8
Miscellaneous	72.1	2.4	171.3	5.1	206.5	5.4
TOTAL	**3,037.0**	**100.0**	**3,376.1**	**100.0**	**3,838.8**	**100.0**

SOURCE: The Central Bank of The Bahamas

partly accommodated through a reduction in the public sector's liability to the banking sector (see Table 9). By currency composition, the Bahamian dollar component registered modestly higher growth of 12.9%, whereas the advance in the foreign currency component slowed appreciably to 3.3% from the year-earlier 18.9% when there was significant bank participation in major tourism sector projects.

The rate of increase in private sector credit broadened to 14.7% from 11.2% in 1999. Some 26.8% of this advance represented net consumer lending, which rose however, at a more moderate pace of 9.6% vis-à-vis 12.6% in 1999. Conversely, residential mortgage lending grew briskly by 15.6% ($115.3 million) and personal overdraft balances were 33.7% higher.

Signaling an improving budgetary position, the public sector reduced its liability to the banking sector by 2.5% as against a 13.5% hike in net borrowings for 1999. In particular, the rate of increase in net credit to Government slowed to 2.6% from 9.5% in 1999, while credit to the rest of the public sector contracted by 17.1% from the year-earlier advance of 26.8% that mainly accommodated financing of disengagement packages for telecommunications sector employees.

A more detailed analysis of private sector credit revealed that personal loans, which included consumer credit and maintained the largest share (63.4%), increased by 11.3% ($233.5 million) during 2000 (see Table 10). Sizeable increases were also registered for net credit to construction ($95.5 million), manufacturing

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

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

SOURCE: The Central Bank of The Bahamas

($30.4 million) and the distribution ($20.7 million) sectors.

As for other categories of private sector credit, annual gains were recorded for fisheries ($1.1 million), mining and quarrying ($4.4 million), tourism ($15.8 million), entertainment and catering ($12.6 million), transport ($17.7 million), private financial institutions ($8.1 million) and miscellaneous purposes ($35.1 million). Net repayments were made by the agricultural sector ($3.0 million) and the professional and other services ($3.4 million) categories.

A breakdown of consumer lending revealed that the bulk of new credit was extended for miscellaneous purposes ($61.6 million), followed by private cars ($19.1 million), land purchases ($19.0 million), debt consolidation ($6.7 million), travel ($6.5 million), education ($4.3 million), credit cards ($2.8 million), and home improvement ($2.3 million). Apart from a small net repayment under commercial vehicles, the remaining categories registered net increases of $2.3 million.

Interest Rates

The relative buoyancy in bank liquidity, although reduced, was sufficient to support some softening in interest rates. However, as the decline in commercial banks' deposit rates surpassed that for lending, the average loan-to-deposit interest rate spread widened to 7.77% from 7.34% in 1999. The weighted average interest rate on deposits decreased by 53 basis points to 3.97%, while the counterpart loan rate fell by a lesser 10 basis points to 11.74%.

Deposit rates recorded broad-based declines over 2000, with the average savings rate 16 basis points lower at 2.71% and a 52 basis point drop in average fixed deposit rates which settled within a band of 3.93%-4.50%. The decline in average lending rates was led by a 61 basis point falloff in residential mortgage rates to 8.96%. Average rates also narrowed for consumer loans, by 30 basis points to 13.58%; for commercial mortgages, by 22 basis points to 9.46% and for overdrafts, by a lesser 9 basis points to 10.56%.

As regards other rates, commercial banks' Prime lending rate was unchanged at 6.00%, as was the Central Bank's Discount Rate at 5.75%. Consistent with deposit rate trends, however, the average 90-day Treasury bill rate was nearly one percentage point lower at 0.99%.

Net Foreign Assets

Net foreign liabilities of the financial system rose by 66.5% to $84.1 million, primarily attributable to a 15.2% falloff in external reserves (see Table 11). This was moderated by a reduction in commercial banks' net foreign liabilities by $6.9 million (1.5%) to $449.7 million and growth in net foreign assets of the OLFIs of $20.9 million to $23.0 million owing to an accumulation of surplus capital and increased external deposits. The downturn in the Central Bank's external reserves reversed a year-earlier gain of $65.2 million (19.2%) to $404.0 million.

Bank Profitability

Summary indicators for the twelve months ended September 2000 showed modestly higher bank profitability gains of 11.0% to an estimated $122.5 million. With a $37.7 million hike in interest income outmatching a $12.0 million rise in interest expenses, the net interest margin widened by 11.8%. Operating costs rose below this pace at 8.7%, comprising increases in staff costs (6.5%), occupancy costs (16.7%) and "other" expenses (10.7%). Gains registered for bad debt expenses (21.4%) and depreciation costs (7.6%) were not sufficient to reverse these results.

Ratios of profitability indicators relative to average domestic assets were broadly unchanged for the 12 months under review vis-à-vis the year-earlier period, as average balance gains kept pace with net earnings growth. In particular, the net income ratio—the return on assets ratio—stood at 2.70%, and the operating costs ratio at 3.59% as against respective year-earlier positions of 2.71% and 3.66%. Amid the widening in the net interest margin, from 5.33% to 5.38%, banks' effective interest rate spread declined by 80 basis points to 5.81%.

Other Financial Sector Developments

In other financial sector developments, the number of banks and trust companies licensed to operate from or within The Bahamas fell by 5 to 410 at end-December 2000, corresponding to 8 fewer public institutions alongside 3 additional restricted and non-active licencees.

2000 also featured the first year of operation for the Bahamas International Securities Exchange (BISX), with live trading beginning on 12 May. Next, BISX intends to automate the settlement process followed by the launching of the international segment, to give the market time to convert existing processes for both settlement and trading. By end-2000, the number of companies listed had grown from 9 to 15—all incorporated in The Bahamas and representing the banking, insurance, industrial, health care, multimedia, investment, property management, retail/distribution and environmental sectors. Indications are that the Exchange recorded only modest daily trading activity but average daily volumes have increased steadily since startup.

Initial Public Offerings (IPO) included an April launching by Commonwealth Bank which sought to increase its subscriber base by some 3,000 new shareholders, and reported an over-subscription of 140% the highest on record in The Bahamas.

At end-2000, FINDEX, the Bahamian stock index developed by Fidelity Bank & Trust International Limited, stood at 367.58 points representing an average capital appreciation of 23.32%, and companies' 2000 price/earning ratio moved within a range of 6.71%–21.93%.

Official statistics on mutual funds, compiled by the Securities Commission, indicated that as at June 30, 2000 there were 716 active funds under management, representing a 14.0% growth vis-à-vis December 1999, and a 20.1% advance over the June 1999 figure. The corresponding value of assets under management increased by 8.5% to $91.7 billion vis-à-vis June 1999, but was 2.8% below the level at end-December 1999.

INTERNATIONAL TRADE & PAYMENTS

Provisional estimates for international trade and payments indicated a sizeable expansion in the current account deficit, to $560.3 million in 2000 from an estimated $406.1 million in 1999 (see Table 12). Of particular note was the growth in the merchandise trade deficit by some 10.0%, amid significant increases in imports of construction materials and the spike in oil payments. Also noteworthy was the 2.0% reduction in the net invisible surplus, as the sharp reversal on net inflows for insurance services countered the notable increase in net tourism receipts. In addition, net factor income remittances were higher by 34.0%.

The trade deficit increased by 7.7% to an estimated $1,346.0 million. Although estimated export earnings were relatively stable at $535.8 million, non-oil merchandise imports rose to $1,606.7 million from $1,594.3 million last year, as rebuilding efforts following Hurricane Floyd alongside a healthy rate of economic expansion continued to boost foreign goods demand. Another significant trend was the upward spiral in global crude prices, which pushed the oil bill appreciably higher by $97.0 million (55.1%) to $273.0 million.

The sharp rise in the average cost of imported fuel was evident in strong hikes in the per barrel price of kerosene (92.3%) to $38.73; gas oil (77.1%) to $33.59; bunker 'c' fuel (60.6%) to $20.47; motor gasoline (59.2%) to $39.77 and propane (35.6%) to $24.59. In contrast, a significant decline (45.5%) was recorded in the average cost of aviation gas to $36.62 per barrel.

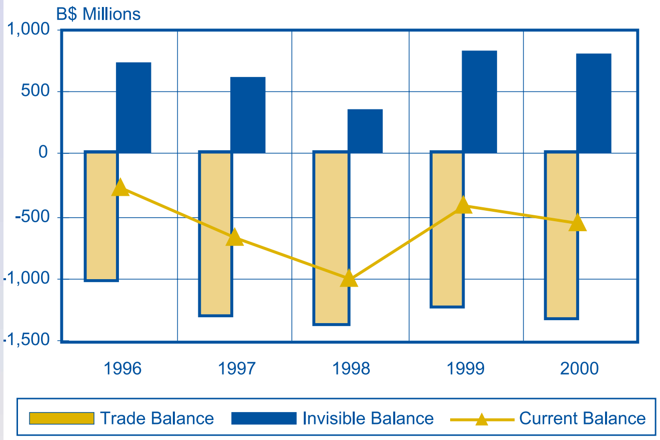
The surplus on services transactions narrowed by $18.5 million to $918.0 million, as net non-merchandise insurance remittances at $44.4 million contrasted with net settlement receipts of $89.1 million in 1999 — the latter being associated with Hurricane Floyd claims. This dampened a $112.2 million (8.8%) increase in net

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

	1995p	1997p	1998p	1999p	2000p
I) CURRENT ACCOUNT	(148.2)	(665.1)	(995.7)	(406.1)	(560.3)
i) Merchandise Trade (net)	(931.3)	(1,301.8)	(1,373.9)	(1,249.3)	(1,346.0)
Exports	225.3	246.2	362.9	523.2	535.8
Imports	1,156.7	1,547.9	1,736.8	1,772.5	1,881.8
ii) Services (net)	905.0	745.1	542.8	936.5	918.0
Travel	1,133.1	1,166.1	1,098.3	1,272.6	1,384.9
Transportation	(81.7)	(140.7)	(146.9)	(112.3)	(113.2)
Other	(146.4)	(280.3)	(408.5)	(223.9)	353.7
iii) Income (net)	(139.8)	(147.7)	(199.0)	(129.7)	173.8
Compensation of Employees	(27.8)	(31.1)	(34.5)	(41.0)	(51.1)
Investment Income	(112.0)	(116.7)	(164.6)	(88.7)	(122.8)
iv) Current Transfers (net)	17.9	39.3	34.3	36.4	41.6
Government	20.7	43.7	38.0	41.5	45.6
Private	(2.8)	(4.4)	(3.7)	(5.1)	(4.0)
II) CAPITAL AND FINANCIAL ACCOUNT	90.6	405.4	860.0	583.6	403.0
i) Capital Account (Transfers)	(12.5)	(13.0)	(11.7)	(13.6)	(16.4)
ii) Financial Account	103.2	418.5	871.7	597.2	419.5
1. Direct Investment	106.7	209.6	146.4	149.1	250.0
2. Other Investment	(3.5)	208.9	725.2	448.1	169.5
Central Gov't Long Term Capital Flow (net)	(9.6)	12.5	(11.3)	2.4	0.2
Other Public Sector Capital	(17.4)	13.2	6.0	(7.3)	(12.8)
Banks	12.2	61.3	29.9	91.8	(27.8)
Other	11.4	122.0	700.6	361.2	209.8
III) NET ERRORS AND OMISSIONS	48.1	316.2	255.0	(112.3)	95.8
IV) CHANGES IN EXTERNAL RESERVES ( ) = increase	3.0	(56.5)	(119.3)	(65.3)	61.5

SOURCE: The Central Bank of The Bahamas

Balance of Payments



tourism receipts to $1,384.9 million, which occurred alongside widespread reductions in net external payments for most other services. In particular, offshore companies local expenses grew by $10.0 million (11.8%) to $94.8 million. Meanwhile, net external payments for government, construction and "other" services declined marginally, on balance.

Net factor payments rose by 34.0% to $173.8 million in 2000, as higher (24.6%) net labour income remittances of $51.1 million were accompanied by a sizeable expansion in net investment income payments of 38.4% to $122.8 million. For the latter, net profit repatriation by financial institutions and the private sector rose by $39.8 million (40.5%) to $138.0 million. In a small offset, a modest increase in interest income on the Central Bank's external reserves extended the net public sector inflow to $23.9 million from $18.0 million in 1999.

Net transfers improved by 14.2% to $41.6 million, inclusive of an increase in Government's net inflows to $45.6 million from $41.5 million. Additionally, private sector net payments fell moderately to $4.0 million from $5.1 million.

The capital and financial account surplus contracted to $403.0 million from $583.6 million in 1999, although representing the fourth highest on record. Developments reflected the leveling off in direct investment flows from their peak levels in the last three years, coincident with a reduction in domestic banks' liabilities.

Capital transfers on behalf of migrant workers increased to $16.4 million from $13.6 million in 1999, while the net inflow on the financial account declined to $419.5 million from $597.2 million.

Within the financial account, net private direct inflows improved to $250.0 million from $149.1 million in 1999, inclusive of an almost five-fold increase in net real estate sales to $106.5 million and a $17.6 million (13.9%) boost in net equity investments. However, as hotel sector construction activities tapered off, net private sector borrowings were reduced to $209.8 million from $361.2 million in 1999. Further, domestic banks reverted to a net repayment on short-term external liabilities of $27.8 million from a net increase of $91.8 million last year when they provided funding for several hotel-related infrastructure projects. In the public sector, the Government's net borrowing decreased to $0.2 million from $2.4 million, and public corporations reduced their external indebtedness by $12.8 million as against $7.3 million in 1999.

Consequent upon these developments and taking into consideration possible errors and omissions, the overall balance of payments—measured by the change in external reserves—switched to a deficit of $61.5 million from a $65.3 million surplus in 1999.

INTERNATIONAL ECONOMIC DEVELOPMENTS

Based on preliminary estimates, the global economic expansion strengthened further to 4.8% in 2000 from 3.5% in 1999, corresponding to strong although moderating growth in the United States and consolidating gains in Europe and East Asia which also signaled a modest recovery in Japan. Among the major industrialized countries, the expansion supported intensified fiscal consolidation efforts and extended labour market gains. The monetary bias remained restrictive to quell heightened inflationary pressures arising partly from the sharp rise in average energy prices. Global financial market developments were marked by significant volatility and depreciation in equity prices, which favourably impacted the United States dollar's performance in currency markets. Growth in the advanced economies continued to support an expansion in world trade volumes, albeit at the expense of a widening in the aggregate external account imbalance.

Preliminary estimates placed real output growth among the major industrial economies almost a full percentage point higher at 3.8% in 2000, propelled by improving conditions in Europe and Japan and a firming in the average rate of expansion in the United States, to 5.0% from 4.2% in 1999. However, the United States' outturn was based entirely on an accelerated gain of more than 5.0% in the first half of the year, as average growth slowed to less than 2.0% in the second half, under the combined effects of earlier interest rate hikes initiated by the Federal Reserve and the restraining impact of higher energy costs on consumer spending and business investments.

In the European Monetary System, robust domestic demand and export competitiveness from the depreciated euro combined to push real GDP growth upwards to an estimated 3.5% from 2.5% in 1999. Germany's real growth at 3.1% exceeded expectations, and was the fastest since unification in 1990, and nearly doubled 1999's pace of 1.6%. In France, the economic expansion stabilized at 3.2%. The growth momentum in the United Kingdom firmed to 3.0% from 2.3% last year, supported by more buoyant domestic demand which offset the impact of weakened net exports from currency appreciation. Although gradual, the pace of the Japanese recovery quickened to an estimated 1.5% from 0.8% in 1999, despite some slowdown in net export growth to the United States and Europe.

Feeding primarily on the momentum of the United States' economy, real output growth among developing nations was also broadly accelerated, at an estimated 5.7% relative to 3.8% in 1999. In East Asia, where economies have successfully emerged from post-crisis (1997-1998) interventions, the expansion gathered momentum at an estimated 5.2% from 0.9% in 1999. A significant improvement was also achieved for the Middle East and Eastern Europe, where real output growth firmed to 5.2% from a sluggish 0.9% in 1999, owing to windfall oil price gains and increased oil production. In Africa, despite some external uncertainties, economic growth advanced to an estimated 3.0% from 2.2%, benefiting from ongoing structural reform efforts. Prospects for economies in transition were brightened by the more than doubling in Russian economic expansion to 3.8% from 1.8% in 1999. As Latin America's fiscal situation improved, growth recovered to more than 4.2% from less than 1.0% in 1999.

Labour market conditions in the major economies were generally more favourable during 2000, with the average jobless rate decreasing to an estimated 5.8% from 6.2% in 1999. Employment gains in the United States moderated as the average unemployment rate eased to 4.0% from 4.2%. Average unemployment was also broadly lower in the 11-nation euro area, at 9.1% from 10.0% in 1999. The jobless rate for Germany was at its lowest since March 1995 at 9.3%, and declined in France to 9.7% from 11.2%. Similarly, the United Kingdom's average jobless rate fell to a four-year low of 3.7% from 4.3% in 1999. By contrast, ongoing corporate restructuring conditions prevented any improvement in the Japanese unemployment rate, which steadied at 4.7%.

Influenced by the upward spiral in energy prices, average consumer price inflation in major economies firmed to 2.2% from 1.4% in 1999. In the United States, monetary policy tightening served to partially restrain the acceleration in average price increases, to 3.4% from 2.2% in 1999. However, the weakening currency in the European Monetary System alongside domestic demand influences caused the average inflation rate to intensify to 2.3% from 1.1%, with Germany's advance quickening to 1.9% from 0.6% and France's, to 1.7% from 0.5% in 1999. Tightened monetary conditions and sterling's appreciation combined to restrain average consumer price inflation in the United Kingdom, to 2.1% from 2.3% in 1999. Deflationary conditions persisted in Japan, where the decline in average consumer prices was higher at 0.6% from 0.3% in 1999.

As measured by the International Monetary Fund's index for primary commodities, world commodity prices rose significantly over the course of 2000, underscored by a 47.5% surge in oil prices following an equally strong 37.5% gain in 1999. Although crude oil was priced at $26.80 per barrel at end-2000 as compared to $25.60 in 1999, fluctuations ranged between a high of $37.20 in September and a low of $23.85 in April. After four consecutive years of decline, including a 7.1% drop last year, non-oil commodity prices recovered by 3.2% in 2000. The price of gold, however, weakened in precious metal markets, to $272.00 per troy ounce from $288.50 per ounce in 1999. The highest fixing of the year, at $316.20 per ounce, occurred in early February vis-à-vis a low of $263.90 in late October.

On the monetary policy front, major central banks maintained their restrictive stances to counter inflationary pressures arising from domestic demand. The European Central Bank raised both its benchmark marginal lending and deposit facility rates on six occasions by a total of 1.75 percentage points to 5.75% and 3.75% respectively, extending the half percentage point increases orchestrated in both rates during 1999.

Price pressures were less pronounced in the United Kingdom, where the Bank of England hiked its repurchase rate only once in February, by 25 basis points to 6.00%.

In the United States, the Federal Reserve raised both its discount rate and the Federal Funds rate twice during the first quarter of 2000, by a combined 50 basis points to 5.50% and 6.00%, respectively. However, a more neutral stance was adopted over the balance of the year, as signs of an economic slowdown mounted. During the summer, the Bank of Japan abandoned its zero interest rate policy for the inter-bank market, lifting the target overnight rate to 0.25% as the economy began to show signs of strengthening.

During 2000, the United States dollar dominated global currency markets, sustained by a strong economy and significant capital inflows into dollar-denominated assets. The dollar strengthened by 8.4% against the pound sterling to £0.67, achieved a record 6.7% gain against the euro to €1.06 and advanced by 3.7% against the Canadian dollar to C$1.50. The dollar's appreciation relative to the Japanese yen was steepest, however, at 11.6% to ¥114.4, as the economic recovery showed some signs of levelling off.

Fiscal consolidation efforts continued across most advanced economies. In particular, the United States' budget surplus improved to an estimated 2.0% of GDP from 1.3% in 1999, and the United Kingdom's positive balance more than doubled to an estimated 3.6% of GDP. German authorities achieved a full fiscal turnaround, from a shrinking deficit equivalent to 1.3% of GDP in 1999 to a surplus of 1.4% of GDP in 2000. However, Japan's fiscal deficit was maintained at an estimated 11.4% of GDP, as public sector expenditures remained an important component in stimulating domestic demand.

Equity markets exhibited intense volatility in 2000, with investors fuelling a strong buying frenzy at the beginning of the year. However, average share price valuations declined sharply over the remainder of the year, interrupting six years of double-digit capital gains, on average, since 1995. A disproportionate amount of the correction was centered on internet and technology based companies which continued to face negative profits and cash flow prospects, while other sectors were downgraded owing to the deteriorated outlook for the United States economy. These developments were most pronounced in the United States' technology laden Nasdaq Composite Index, which declined by 39.3% to 2,470.52 points at year's end in its worst annual showing since its 1971 inception. The Dow Jones Industrial Average lost a more moderate 6.2% to 10,786.85 points, after breaching a new record 12-month high of 11,722.98 points in the first quarter; and the Standard and Poors' 500 Index dropped 10.1% to 1,320.28 points. Other major bourses also mirrored these trends. Japan's Nikkei 225 Index loss 27.2% to 13,785.69 points on the heels of political turmoil, a renewed slump in economic activity and erratic corporate restructuring. The United Kingdom's Financial Times 100 shares index retreated by 10.2% to 6,222.50 points, and Germany's DAX index by 7.5% to 6,433.61 points.

Estimated growth in world trade volumes nearly doubled for 2000, to 10.0% from 5.1% in 1999. With trade continuing to be fueled by demand from the advanced economies, and the United States in particular, major industrial countries' combined current account deficit rose to an estimated $265.0 billion from $217.5 billion in 1999. Correspondingly, developing countries recorded an estimated current account surplus of $21.0 billion, which nearly erased the $24.0 billion deficit of 1999. In the United States, strong net import demand produced a substantial widening in the current account shortfall to an estimated $419.0 billion from $331.5 billion last year. Likewise, the current account deficit in the United Kingdom advanced to $21.0 billion from $16.0 billion in 1999, partly due to the adverse effects of sterling's appreciation on net exports.

In the euro area, increased net invisible outflows underpinned an expansion in the estimated current account deficit, to $26.1 billion from $6.2 billion in 1999. Conversely, Japan benefited from these trends, extending its current account surplus to an estimated $121.0 billion from $109.3 billion in 1999.

During the fifty-fifth Annual Meetings of the Board of Governors of the International Monetary Fund (IMF) and the World Bank Group held in Prague, the Czech Republic, from September 26-28 2000, Governors addressed globalization issues, noting the urgency of ensuring that its benefits were equally spread and its costs minimized, particularly for developing countries. In this regard, renewed emphasis was placed on the role of crisis prevention and surveillance in the Fund's activities. The recently implemented Poverty Reduction and Growth Facility (PRGF) was highlighted as an important instrument towards making globalisation work for all. Attention was also called to the importance of productive private sectors in the globalisation process, and the need to strengthen these underpinnings, especially in developing economies.

Currency Operations

Currency in active circulation, which increased by 28.7% in 1999 in response to the Y2K changeover, decreased by 3.2% to $215.92 million at end-2000. Reflecting seasonal demand, the peak was again registered in December during the Christmas period, at $229.7 million. The old Bahamian sterling currency note liability of the Central Bank totaled B£28,725.31, which was equivalent to B$82,072.23.

OPERATIONS

Bahamian dollar banknotes are issued in denominations of $0.50, $1, $3, $5, $10, $20, $50 and $100, with a circulation value of $204.5 million at end-December 2000. Although $100 and $50 notes represented 44.3% and 24.6% of the outstanding value, they accounted for only 4.2% and 4.7% of the respective total quantity in circulation. The largest quantity of bills in circulation continues to be the $1 notes at 65% of the total, followed by $20 and $5 notes at 6.8% and 6.5%, respectively. By value, $1 notes comprised 6.9% of the total notes outstanding; the $20 denomination, 14.3% and the $5 bill, 3.4%.

The aggregate value of coins in circulation was $11.4 million, comprising denominations of 1¢, 5¢, 10¢ 15¢ and 25¢ pieces. The 25¢ piece is the most widely circulated denomination at 36.5% of the total, followed by the 10¢ (25.0%), 1¢ (19.0%) and 5¢ (10.6%) coins; the 15¢ piece is circulated to a lesser extent (2.7%).

As issuer of the currency, the Central Bank is involved in all matters associated with notes and coins in circulation. These include currency design, the recording of all movements of currency in and out of the Bank, and the examination of notes for reissue or destruction.

In 2000, four denominations of Bahamas notes ($10, $20, $50, and $100) were redesigned in an effort to accomplish a number of security and aesthetic enhancements.

On the $10 banknote, the portrait was changed from Queen Elizabeth II to that of Sir Stafford L. Sands, and a variable image reflective foil feature was added to the front right-hand corner of the note. The portrait of Sir Milo B. Butler was retained on the $20 banknote, and a reflective foil feature was also added to the front right-hand corner of the note.

The portrait of the $50 banknote was changed from Queen Elizabeth II to that of Sir Roland T. Symonette, and a variable image reflective foil feature was added to the front, right-hand corner of the note. Queen Elizabeth II's portrait was retained on the $100 banknote, and a multi-redundant holographic feature was added to the front, right-hand corner of the note.

The basic colours of each of the four banknotes remained unchanged, although the colour transitions were smoothened-out, and a windowed cleartext thread was added to each denomination. Other non-publicly identifiable security features were also added to each denomination.

Foreign Exchange Transactions

The Central Bank's buying and selling rates for U.S. dollars from/to clearing and commercial banks remained unchanged at U.S.$1.00 = B$1.0025 and U.S.$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 Central Bank maintained the policy of adding a commission of one half of one percent to the mid-rate.

The highest and lowest pound Sterling/Bahamian dollar rates employed by the Bank during 1999 were:

	Buying	Selling	Date Employed
Highest	1.6525	1.6608	January 21, 2000
Lowest	1.3995	1.4065	November 23, 2000

Relations With Public Sector

As fiscal agent to the Government, the Central Bank continued in its function as the registrar and issuer of Government Treasury bills and bonds. The Bank also performed the role of market maker for the purchase and resale of these securities, upon demand.

The level of Treasury bills outstanding remained at $132.5 million, in line with continual rollovers of maturing certificates, with primary sales conducted through an auction mechanism. The Banks' secondary market activity in bills recorded rediscounts of $139.1 million, with purchases from commercial banks and public corporations at $115.1 million and $24.0 million, respectively. Sales totaled $89.0 million, of which $71.0 million was to commercial banks and $18.0 million to public corporations.

Bahamas Government Registered Stocks (BGRS) maturing during the year amounted to $50.0 million as compared to new bond issues of $55.8 million, for an outstanding stock of $1,186.386 million. The maturity structure for existing bonds ranged between 2001 – 2020, offering variable yields over Nassau Prime Rate (6.00%), of 0.125% - 1.500% per annum, and fixed annual rates of interest, from 5.75% to 10.50%.

The Bank continued in its role as registrar for the Bridge Authority Bonds. The outstanding stock remained at $28.0 million, with a maturity structure between 2014 – 2029. Variable yields on the bonds range 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 a "Statutory Reserve" 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 80.0% of required reserves. In line with growth in the Bahamian dollar deposit base, reserve balances rose by 7.7% to $136.4 million at end-2000; but banks' excess balances contracted sharply by 83.4% to $7.9 million.

Banks also maintained balances at the Central Bank to facilitate the Clearing Banks Association's cheque clearing arrangements, which are managed by the Central Bank. During 2000, the volume of cheques processed increased by 5.4% to 3.9 million, representing an 8.5% hike in value to $5,610.3 million. The Bank continues 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 offered rates were unchanged at 20% and 25%, respectively. The Investment Currency Market opened the year with a balance of $590,581.40. Purchases totaled $1,900,981.66 and sales $742,479.52, for a closing year-end balance of $1,749,083.54.

EXCHANGE CONTROL

During 2000, no changes were effected to the exchange control arrangements administered by the Central Bank. The Exchange Control Department continued to monitor commercial banks' operations and compliance of commercial banks with the Exchange Control Regulations, and performed its functions relative to the processing of applications for current and capital account transactions between residents and non-residents.

The number of Authorized Dealers operating at end-2000 remained unchanged at nine (9), while the number of Authorized Agents increased by one to fourteen (14) with the granting of Authorized Agent status to Fidelity Merchant Bank & Trust Limited, effective 16 May 2000.

RESEARCH

During 2000, the Research Department continued to discharge its core responsibilities of monitoring, compiling and analyzing financial and economic data, which were primarily disseminated through the Bank's Quarterly Statistical Digest, Quarterly Economic Review and the Annual Report. The Department also played an important role in the deliberations of the monthly Monetary Policy Committee through its preparation of reports on credit and money trends.

The Department maintained its FAME time series database of banks' weekly and monthly balance sheet data, used in the production of the Department's weekly and monthly statistical reports. A diskette reporting system was introduced to capture the semi-annual International Banking Statistics surveys for transfer into FAME. Work also began on the production of statistical tables for the Quarterly Statistical Digest and Economic Review directly from FAME databases, and the EViews econometric software package has been introduced to facilitate forecasting efforts. The Bank's broad-based dissemination of internet facilities has assisted in the distribution of information to important stakeholders and enabled limited electronic filing of financial institutions' reports.

In performance of one of its most critical roles, the Department continued to provide analytical support to Government and its agencies with regard to legislative and policy issues, and assisted with an array of external requests for information. Apart from routine reports of money, credit and liquidity trends, extensive research was undertaken on: Capital Market Developments and The Banking System, Foreign Portfolio Investments in The Bahamas, Banks' Profitability Trends in The Bahamas, The Impact of Mutual Funds on Domestic Financial Development, The Government Securities Market in The Bahamas, Trends in Public Sector Debt, Public Pension Reform, Balance of Payments Forecasting, Competition & Quality of Bank Balance Sheets, Forecasting Bank Liquidity and the Money Multiplier.

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**	**T**	**TOTAL**
December 1999	150	111	15	8	11	104	9	4	3	**415**
Add Licenses issued in 2000	4	2	5	0	0	2	0	0	0	**13**
Less Licenses revoked in 2000	-9	-8	0	0	0	0	0	-1	0	**-18**
Sub Totals	**145**	**105**	**20**	**8**	**11**	**106**	**9**	**3**	**3**	**410**
Licenses upgraded or downgraded	-1	-1	0	0	0	0	+1	+1	0	**0**
December 2000	**144**	**104**	**20**	**8**	**11**	**106**	**10**	**4**	**3**	**410**

B=Bank, T=Trust, T(Nom)=Nominee Trust
Note: Gross from License Fees during 2000 amounted to approximately $ 9,069,000

In addition to presentations at external forums, the Department also instituted an in-house seminar series to permit broader internal dissemination and discussion of research work.

The in-house Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) continues to support the joint efforts of the Department and the Public Treasury to improve public debt recording and management functions.

COMPUTER

After completing the Y2K changeover of the Bank's mission critical systems, the Computer Department undertook important development work on the J. D. Edwards software used in the accounting and human resources functions of the Bank. The Premier Group was engaged to assist the Bank in implementing the Accounts Payable and Fixed Asset Modules of the J.D. Edwards Financial Suite. The exercise involved a restructuring of the chart of accounts and the development of important system interfaces between the payroll and the general ledger modules, for increased operational efficiency in the management of the Bank's financial and human resources. During the year, internet and e-mail facilities were distributed throughout the Bank, enhancing both the internal and external communication infrastructure.

While no new personal computer based-applications were developed during 2000, major modifications were carried out to existing systems to enhance performance and operational functionality. These included the introduction of additional reports for the Banking Currency System and three new modules for the Bridge Authority Bonds System.

BANK SUPERVISION

The underlying philosophy governing bank supervision is that banks and trust companies should be free to allocate credit according to market forces and should be entitled to set terms and conditions for their operations in an environment of competition. However, strict supervisory rules should be set for bank behavior in order to protect depositors and other creditors and the financial system as a whole. Pursuant to this, the Bank Supervision Department has historically worked to promote and maintain the safety, soundness, and integrity of the Bahamian banking and financial system and of each institution within the system. The Department also has worked to promote confidence in the financial system through the implementation of policies and standards that are in keeping with international best practices for supervision and regulation.

In recent years, the Department's supervisory and regulatory regime for banks and trust companies has been substantively enhanced, with targeted emphasis, inter alia, on corporate governance, guidance on internal controls and accounting standards, capital adequacy, risk management standards, controls on large financial exposures and self-dealing, safeguards against abuses of conflicts of interest and Know-Your-Customer (KYC) requirements. Also, a new quarterly return was designed and introduced which discloses a clearer operational picture of each reporting institution.

Such efforts towards implementing international supervisory practices continued throughout 2000. However, supervisory and regulatory activities in the Department were significantly affected by externally generated initiatives taken during the year by The Financial Stability Forum (FSF), The Financial Action Task Force (FATF), and the Internal Revenue Service (IRS) of the United States . These initiatives impacted all aspects of the financial services sector in The Bahamas, sparking a broad-ranging program of actions by the Government to address the deficiencies detailed in their reports on The Bahamas.

Response to the Initiatives

In the wake of these supra-national initiatives and the impending US Treasury led QJ initiative, the Government embarked on an ambitious overhaul of financial sector legislation enacting on the 29th December, 2000, the following new laws:

- The Banks and Trust Companies Regulation Act, 2000
- The Central Bank of The Bahamas Act, 2000
- The Financial Intelligence Unit Act, 2000
- The Proceeds of Crime Act, 2000
- The Financial and Corporate Service Providers Act, 2000
- The Financial Transactions Reporting Act, 2000
- The International Business Companies Act, 2000
- The Evidence (Proceedings in other Jurisdictions) Act, 2000 and
- Criminal Justice (International Cooperation) Act, 2000

The Bank Supervision Department took an active role in the drafting/vetting of these laws, which, inter alia, addressed:

- Enhanced powers of the Governor of the Central Bank to issue and revoke licenses to carry on banking and/or trust business from within the Commonwealth of The Bahamas.
- Operational independence of the Central Bank in supervision and regulation of banks and trust companies;
- Increased provision for information sharing with other regulators for supervisory purposes;
- Provisions upgrading banking supervision, including, but not limited to, on-site examination of banks and trust companies, as well as permitting examinations by appropriate overseas supervisory authorities;
- Upgrading and broadening of KYC requirements and suspicious and unusual transactions reporting;
- Establishment of a Financial Intelligence Unit (FIU);
- Introduction of licensing of financial and corporate service providers, such as lawyers, accountants and management companies;
- Removal of bearer shares from International Business Companies (IBCs) shareholding structures, and granting of permission for Bahamians to own IBCs.

The New Legal Framework for Banks and Trust Companies

The legal framework governing the regulation of banks and trust companies is contained in the Central Bank of The Bahamas Act, 2000 and the Banks and Trust Companies Regulation Act, 2000, which repealed and replaced the Central Bank of The Bahamas Act, 1974, the Banks and Trust Companies Regulation Act, 1966 and the Banks Act, 1909.

The Central Bank of The Bahamas Act, 2000

The Act now allows the Central Bank, subject to certain conditions and controls, to share supervisory information with overseas regulatory authorities, in order to enable those authorities to exercise regulatory functions. In addition, the new provisions of the Act facilitate consolidated supervision by the Central Bank.

The Banks and Trust Companies Regulation Act 2000

Among the salient features of the Banks and Trust Companies Regulation Act, 2000 is the empowerment of the Governor of the Central Bank to licence banks and trust companies pursuant to enhanced and specific licensing criteria, which include the following:

(i) that the applicant is a fit and proper professional or company to carry on banking or trust business;
(ii) the nature and sufficiency of financial resources of the applicant to provide continuing financial support for the bank or trust company;
(iii) soundness and feasibility of the business plan;
(iv) whether those who will operate the bank or trust company will do so responsibly and whether such persons have the character, competence and experience for operating the bank or trust company; and
(v) the best interest of the financial system in The Bahamas.

The Banks and Trust Companies Regulation Act, 2000 provides for enhanced administrative authority of the Central Bank for overseeing licensees and specifically delineates the authority of the Governor, among other things, to require substitution of any director or officer of the licensees, appoint Advisors to advise licensees on proper conduct of their affairs, appoint Receivers to assume control of licensees' affairs in the interest of creditors and approve and/or replace Auditors.

The Banks and Trust Companies Regulation Act, 2000 further establishes the Office of Inspector of Banks and Trust Companies whose duties include: setting up appropriate capital adequacy requirements, not less than those established by the Basle Capital Accord; cooperating with inspectors and supervisors in other jurisdictions; and generally supervising policies, practices and procedures of licensees concerning various aspects of their operations. The Inspector is also empowered to have access to the books and records of a licensee or to commission an auditor of the licensee to carry out any audit on different aspects of its operations.

In addition to off-site supervision, the new legislation also provides for on-site examination of licensees and for the cross border inspection of Bahamian licensed branches and subsidiaries of international banks by their home country supervisory authorities. However, the foreign supervisory authority must receive the written approval of the Inspector to inspect Bahamian subsidiaries or branches. Such approvals are contingent upon the foreign supervisory authorities agreeing to strict confidentiality protocols, including undertakings not to transmit any information obtained during the course of its inspection to other authorities without the written consent of the Inspector. Further, in carrying out the inspections, supervisory authorities would not have access to individual customer information other than what would be submitted to them, on a case-by-case basis, through the Inspector.

Implementation Activities

In keeping with new provisions for on-site examinations, the Bank Supervision Department engaged a team of ten persons late in 2000 to carry out the on-site examinations, which subsequently commenced on 22 January, 2001. Prior to the start of this undertaking, a former bank supervisor for the Office of the Comptroller of The Currency of the United States was engaged as Senior Consultant under the auspices of the International Monetary Fund (IMF) to guide the on-site examination process, as well as to provide general advice to the Department. The 10 member inspection team includes eight senior Bahamian and foreign retired bankers/accountants under the leadership of two on-site supervisory experts, formerly of the Canadian Office of the Superintendent of Financial Institutions. On the basis of current resources, it is expected that some ninety inspections will be carried out during 2001. The Bank intends to review the programme and, if necessary, engage additional resources to accelerate the pace of the exercise.

The initial focus of the on-site examinations is on financial institutions' implementation of the statutory and regulatory requirements for know-your-customer/anti-money laundering policies, procedures, and controls which are now contained in the Proceeds of Crime Act, 2000, the Financial Transactions Reporting Act, 2000, the Financial Intelligence Unit Act, 2000 and implementing regulations. Processes to be covered include:

- customer identification;
- monitoring of transactions;
- detection and reporting of suspicious transactions;
- internal controls systems;
- operating procedures;
- management information and analytical/review systems; and
- employee training programs necessary to meet the requirements of the laws and regulations.

During 2001, the Central Bank plans to expand the scope of these on-site examinations to include prudential issues pertinent to the risk management and safety and soundness of the institutions.

The Bank has budgeted some $2.7 million for 2001 to provide for expansion in bank supervisory resources/facilities and support for the newly established Financial Intelligence Unit (FIU). Of this amount, $1.2 million is earmarked for new technical resources and training principally on-site examinations; $2.2 million for the leasing and fitting out of new facilities to accommodate the expanded off-site and on-site supervisory team, and $0.4 million for consultancy and other budgetary support for the FIU.

Brass-Plate Operations

In keeping with the enhanced regulatory regime, unrestricted licensees that do not maintain a physical presence in The Bahamas are being advised that they must establish a meaningful physical presence, including local maintenance of books and records, including client data and documentation as to client identity in conformity with the recently legislated KYC requirements. Further, managed licensees are being informed that they will be required to have at least two senior persons cognizant of their operations and a local non-executive director appointed to their boards.

Granting of US QJ Status

The enhanced package of legislation governing the financial services sector has produced its first positive results regarding the aforementioned initiatives as the Bahamas was granted Qualified Jurisdiction Status by the United States Treasury Department on the 9 January 2001.

On-going Supervisory Activities

During 2000, the Bank also maintained its diligence in its off-site supervisory functions. Employing statutorily required annual audited financial statements, unaudited quarterly accounts and other additional data obtained as regards specific balance sheet items, the Department performed in-depth and critical analysis on the on-going financial position of 310 banks and trust companies. This assessment involved determining the viability of the banks, their capacities to operate competitively as going concerns and to maintain a judicious balance of liquidity, solvency and risk exposure in the dynamic market place.

Also, the Department held prudential discussions with the executive management of 170 licensees. The focus of these deliberations included an evaluation of past performance and management's future plans, policies, systems of internal control, risk management strategies, as well as capital adequacy. Taking into account the crucial role of the supervisory process, the Department also maintained close relations with the external auditors, continuing its tripartite meetings along with the bank's management on issues applicable to the concerned institutions.

Pursuant to the Central Bank's preference for robust balance sheets, in the context of an uncertain global financial environment, banks have been actively encouraged to boost their capital positions, either through earnings retention or additional equity injections. Consequently, the average gearing ratio of locally incorporated banks and trust companies stood in the region of a healthy 10%.

Further, in its promotion of high standards of conduct and management in banks, the Central Bank maintained its insistence that those persons who control and manage banking business are deemed "fit and proper", possessing excellent credentials and appropriate skills and experience. The Department vetted and approved the appointment of 191 directors and 198 officers during the year.

The Central Bank continued to be vigilant in its practice of collecting and disseminating information on instances of attempted money laundering or questionable activities brought to its attention by the targeted institution or other regulatory agencies. Also, the Central Bank, in it capacity as a designated supervisory authority, pursuant to the Money Laundering (Proceeds of Crime) Act, 1996, received 58 suspicious transaction reports which were then passed on to the Office of the Attorney General for further action. As of 29th December, 2000, the FIU became the primary receptacle for suspicious transaction reports in the future, and the Bank will provide a similar assistance, when appropriate.

Pursuant to Section 25 of the 1996 revised Guidance Notes on anti-money laundering measures, licensees are required to ensure that their external auditors, as part of their annual audits, prepare a report on the adequacy of their internal controls a copy of which is to be submitted by the licensee to the Central Bank. Such reports are being used by the Department to monitor banks' compliance with the requirements of the Guidance Notes. In terms of Guidance Notes on Accounting and Other Records and Internal Control Systems issued to licensees, the Bank Supervision Department commissioned external auditors of two licensees to review and report on their internal control and risk management systems, while control regimes of several other licensees were reviewed during the course of annual prudential discussions.

To establish relationships with other supervisory authorities and promote regional cooperation in banking supervision, the Department participated in the activities of the Basle Committee on Banking Supervision, the Financial Action Task Force, the Offshore Group of Banking Supervisors, the Caribbean Financial Action Task Force, the Association of Banking Supervisory Authorities of Latin America and the Caribbean and the Caribbean Group of Banking Supervisors.

During the year, the Central Bank allowed two foreign supervisory authorities, the Financial Services Authority of the United Kingdom and the Swiss Federal Banking Commission, to conduct inspections of two (each) of their banks licensed in The Bahamas. Further, the Central Bank exchanged information with the Swiss Federal Banking Commission about the scope of our regime of bank supervision in the light of newly enacted legislation.

As the supervisory and regulatory emphasis is placed at the initial stage of the licensing process, the Central Bank retained rigorous criteria for approving new licensees. During 2000, the Department made final recommendations through the Governor to the Minister of Finance as to the issuance, revocation or adjustment of bank and trust licenses of entities operating within or from within the Commonwealth of The Bahamas. With the new legislation, the Governor now has full jurisdiction over such matters.

During the year, 13 new licenses were issued and 18 were revoked. 10 applications were also rejected as the proposals did not measure up to required standards for licensing. At end-2000, the number of banks and trust companies operating within or from within The Bahamas totaled 410.

Box I: Other Regulatory Changes in the Financial Sector

The Financial Intelligence Unit Act, 2000

The Financial Intelligence Unit Act, 2000, which came into effect on 29 December 2000, established the Financial Intelligence Unit (FIU). Functioning since 1 January 2001, the FIU is responsible for enforcing the various anti-money laundering provisions contained in the Financial Transactions Reporting Act, 2000, and the Proceeds of Crime Act, 2000. Through an intensive public consultation process during the first quarter of 2001, the FIU developed suspicious transactions guidelines (anti-money laundering guidelines) for financial institutions licensed in The Bahamas. Under the Financial Transactions Reporting Act, 2000, these institutions have been broadly defined to include banks and trust companies, insurance, co-operative societies, real estate brokers, mutual fund administrators, investment managers, counsel and attorneys and accountants who undertake financial transactions on clients' behalf.

The FIU's operations are supported by the Financial Intelligence (Transactions Reporting) Regulations 2001, issued on 26 January 2001. These require financial institutions to maintain adequate internal controls and reporting procedures for suspicious transactions, and to identify and appoint both a money laundering reporting officer and a compliance officer. Financial institutions are also required to develop and implement regular training programs for employees on the various anti-money laundering guidelines. Failure to comply with the regulations can result in fines ranging from $10,000 to $100,000.

The Act further empowers the FIU to share information that would assist the criminal investigations of foreign financial intelligence units.

The Financial Transactions Reporting Act, 2000

This Act came into effect on 29 December 2000 and contains specific minimum "know-your-customer" and anti-money laundering requirements for the broadly defined financial institutions. While detailing how customer identification is to be verified, the Act makes it an offence for institutions to engage in business without first verifying the identity of customers. In the case of existing accounts, institutions are required to verify account holders' identity by the end of 2001 failing which, institutions will have to transfer all such accounts to the Central Bank of The Bahamas. The Act also imposes obligations on financial institutions to maintain records on the evidence used to verify customer identity on all transactions and to retain identification records for at least five years.

The Act further outlines financial institutions' reporting obligations for suspicious transactions vis-à-vis the FIU. These include all transactions, proposed or otherwise, that are suspected of involving the proceeds of criminal conduct, or attempts to avoid the enforcement of provisions of the Proceeds of Crime Act, 2000.

The Financial Transactions Reporting Regulations, promulgated by the Minister of Finance on 29 December 2000 set out the procedures and information required for verification of customer identification including a valid, official passport, permanent address, employment and source of wealth of clients.

Companies are also required to furnish information on the names and addresses of directors and officers; the beneficial owners and the description and the nature of the business.

The Act also establishes a Compliance Commission, to regulate compliance by financial institutions not regulated by an existing supervisory/regulatory agency. For these purposes, a financial institution includes co-operative societies, friendly societies enrolled under the Friendly Societies Act, real estate brokers, trustees or administration managers or investment managers of superannuation schemes, counsels and attorneys and accountants. The Commission is a body corporate, consisting of three members appointed by the Governor General, having wide experience and demonstrated capacity in financial and commercial matters, industry, law or law enforcement.

The Financial and Corporate Service Providers Act, 2000

This Act came into force on 29 December 2000, and provides for the licensing and regulation of financial and corporate service providers dealing principally, but not exclusively, with registration management and administration of international business companies (IBCs) and Exempted Limited Partnerships.

All corporate service providers licensed under the Act must follow proper due diligence procedures in customer identity verification and character references; maintain adequate records on the beneficial owners of IBC's; and the names and addresses of partners in Exempted Limited Partnerships.

The office of Inspector of Financial and Corporate Services, established under the Act, has been vested in the Registrar General with effect from 27 February 2001. The Inspector is charged with maintaining a general review of financial and corporate services in The Bahamas, and, at the expense of licensees, to carry out on-site and off-site examinations to ensure statutory compliance by corporate service providers. Transitional provisions were made for existing corporate service providers to regularize their operations, and to apply for licensing within three months from the commencement of the Act.

The Dangerous Drugs Act, 2000

This Act came into force on 29 December 2000, and incorporates the relevant provisions of the Vienna Convention Against the Illicit Traffic in Narcotic Drugs and Psychotropic Substances. The Bahamas signed this Convention in 1988.The new Act substantially re-enacts the provisions of the repealed Dangerous Drugs Act and makes new provisions for the forfeiture of personal property used while committing offences.

The Proceeds of Crime Act, 2000

This Act came into force on 29 December 2000, with provisions for the search, seizure and confiscation of the proceeds of crime and for the registration and enforcement of foreign confiscation orders.

The International Business Companies Act, 2000

The new IBC Act was enacted on 29 December 2000 and gives existing companies 180 days to comply with its provisions failing which they would be struck off the Bahamian Register. The issuance of bearer shares has been prohibited, and where bearer shares exist they must now be recalled and substituted by registered shares. Additionally, all persons incorporating IBCs have to be registered under the Financial and Corporate Service Providers Act, 2000.

The Act further provides for Memorandums and Articles of Association of IBCs to be filed with the Registrar of Companies. The register would also contain the location in The Bahamas of the registered agent and the registered office, and the names and addresses of the directors and officers of the company. The Registered Agents must also retain registers of the names and addresses of the beneficial owners of the companies under their charge.

THE BOARD

The Board welcomed the reappointment of Mrs. Orry Sands, Mr. Michael Cartwright and Mr. Gregory Cleare to the Board of Directors for a period of one year, with effect from January 1, 2000.

During the year 2000, the Bank initiated several major capital projects, including the restoration of Verandah House on Market Street, which was acquired by the Bank in 1985, along with Balcony House and Great House from the Bryce Estate. The contract was awarded to Hunt's Construction Company. Other consultants involved in the project were the quantity surveying firm of Anthony R. Archer & Associates; structural engineering firm, George V. Cox and Co., and the Ministry of Public Works was represented by Ms. Alicia Oxley, Project Architect. The project is scheduled for completion in March 2001, and the Institute of Bankers has been granted permission to relocate its executive headquarters and training activity to Verandah House.

The Frederick St. Garden underwent major refurbishment, including extension to the former site of the Malcolm House Property acquired by the Bank in October, 1999.

Overseas Meetings and Seminars

Governor Julian Francis represented the Bank at a number of meetings during the year, including being a member of the Prime Minister's delegation on several overseas missions dealing with financial sector issues. He attended the Franco/Cari-Forum Summit in Guadeloupe and the CARICOM Intercessional Heads of Government Meeting in St. Kitts during March; government meetings in Washington, New York and Canada during July and in Europe during October. Governor Francis attended meetings of the Free Trade Area of the Americas (FTAA) in Miami, Florida, during January, April and December; the Caribbean Development Bank/IMF sponsored seminar "Towards a Caribbean Consensus – a Region Coping with Globalization", in Barbados during February and the United Nations Offshore Plenary 2000 in Grand Cayman, March 30 – 31.

In April, the Governor attended a British Embassy and BTA Consulting sponsored seminar in Santo Domingo and the IMF Consultative Meeting on Offshore Financial Centres in Washington, D.C. He attended CARICOM Central Bank Governors meeting in Jamaica during May and November, the Bank of England and Bank for International Settlements (BIS) meetings in May/June and The World Bank/Caribbean Group for Cooperation in Economic Development's session on "Harmful Tax Competition and Offshore Financial Sector" in Washington, D.C., also during June. During September, the Governor travelled to Switzerland for the 11th International Conference of Bank Supervisors, and meetings of the Offshore Group of Banking Supervisors (OGBS), Association of Banking Supervisors and Caribbean Banking Supervisors; and on to Prague for the Annual IMF/World Bank Meeting.

Deputy Governor Wendy Craigg's overseas travels in 2000 included meetings of the FTAA Negotiating Group on Services in Miami, Florida, during February, May, August, October and December and the Executive Committee meeting of the Caribbean Centre for Monetary Studies (CCMS) in Trinidad during April. In May, the Deputy Governor attended both the UK/Caribbean Forum in London, England and the XXXVIII Meeting of Governors of Central Banks of the American Continent in Mexico City. In August, Mrs. Craigg participated in a meeting of The College of Negotiators of the Caribbean Regional Negotiating Machinery, in Barbados, and in October, travelled to Jamaica for the Annual Regional Programme of Monetary Studies (RPMS) Conference and CARICOM Central Bank Governors Meeting held October 29 – November 3 and November 4, respectively. In December, Mrs. Craigg attended a Caribbean Financial Action Task Force (CFATF) conference on "International Financial Services Sector" in Trinidad and Tobago.

Participation by Heads of Departments in overseas meetings and seminars included: the Committee Meeting of Central Bank Treasurers in Mexico City, which Banking Manager Cecile Sherman attended; the VII Meeting on Central Bank Accounting and Budgetary Matters in Peru, attended by Senior Accounts Manager Henderson Wilson; the XXIII Meeting on Central Bank Systematization in Venezuela and the XI Annual Conference of Regional Central Banks Information Systems Specialists in Haiti, which Computer Manager Bert Sherman attended, accompanied to the latter by the Senior Assistant Manager, Computer Department. Human Resources Manager W. Lester Bowleg along with the Deputy Manager, Human Resources, attended the Fifth Meeting on Central Bank Human Resources Management in Costa Rica and Bank Supervision Manager Iqbal Singh and one of the department's Deputy Managers participated in meetings of the Offshore Group of Bank Supervisors, Association of Banking Supervisors and Caribbean Banking Supervisors and International Conference of Bank Supervisors in Switzerland.

After commencing employment with the Bank in May, Legal Counsel Rochelle Deleveaux represented the Bank at the V Meeting for Central Bank Legal Advisors in Bolivia, and a CFATF Conference on the International Financial Services Sector in Trinidad. Along with Deputy Manager, Research Department, Mr. Claude Haylock, Miss Deleveaux attended the IMF Meeting for the Regional Group of Offshore Financial Centres (OFCs) in St. Kitts and the CFATF Plenary XII and Council of Ministers VI in Aruba.

Middle management staff of the Bank Supervision Department represented the Bank at numerous meetings and conferences in the Caribbean, United States and Europe. These included: the 5th Annual Money Laundering Conference of Money Laundering Alert; the Egmont Group Plenary Meeting, the XI Annual Fraud Conference of the Association of Fraud Examiners, an Interpol Conference on "Cooperation Between Law Enforcement Agencies and Banking and Financial Institutions"; the Federal Reserve System and Federal Financial Institution Examination Council's (FFIEC) Advanced White Collar Crime Conference; the Financial Services Authority's (FSA) International Regulators Conference and a meeting on Training Bank Supervisors hosted by the IDB. A senior officer of the Bank Supervision Department also participated in the CFATF Montserrat Evaluation and 2000 – 2001 Money Laundering Typologies Exercise.

Other meetings and conferences at which the Bank was represented were: the 52nd Annual Conference and Exposition of the Society for Human Resources Management (SHRM); the V Meeting of Central Bank Treasurers; IBM's AS/400 Technical Conference, the Annual Conference of Special Libraries Association; the Annual Convention and Education Forum of the International Association of Administrative Professionals (IAAP), the Eastern Caribbean Central Bank's Annual Conference on Development and Gorham International's Banknote 2000 Conference.

Staff Training, Development and Relations

An integral part of the Bank's training and development programme is the participation of staff in technical training programmes overseas.

Among the programmes in which staff of the Bank Supervision Department participated were: the Bank Supervision Programme offered by the Toronto International Leadership Centre for Financial Sector Supervision; a Bank Supervision Course hosted by the Financial Stability Institute (FSI), Offshore Group of Bank Supervisors (OGBS) and Central Bank of Barbados; a Risk Management Course hosted by the FSI, OGBS and Caribbean Group of Bank Supervisors; a seminar on "Core Principles Methodology" hosted by the FSI and Bank of Jamaica; the Board of Governors of the Federal Reserve System's International Banking, Bank Analysis and Examination, Credit Risk Analysis and Bank Management Schools and Risk Management and Internal Controls Course; a Risk Focussed Supervision Seminar hosted by the FRS and Central Bank of Trinidad and Tobago and a seminar on Deposit Insurance hosted jointly by the Financial Stability Forum's Working Group on Deposit Insurance and Mexico's Institute for Protection of Bank Savings.

Programmes in which representatives from the Research Department participated included: a workshop on "Financial Sector Reform and Risk Management" hosted by the World Bank and the Caribbean Centre for Monetary Studies (CCMS); IMF seminars on "Balance of Payments" and "Public Debt Management" co-hosted respectively by the Eastern Caribbean Central Bank and the World Bank, ECLAC, the IMF and the Central Bank of Chile; the IMF's Macroeconomic Management and Policies Course; a Regional Course in Financial Programming and Policy hosted jointly by the IMF Institute and the Central Bank of Barbados, a seminar on "Financing Sustainable Growth and Development in Latin America", hosted by CEMLA in conjunction with Debt Relief International; a Monetary and Financial Statistics Course hosted by CEMLA in conjunction with the IMF and the Centrale Bank van Aruba; the Federal Reserve Bank of New York's workshop on "Financial Markets, Instruments and Institutions" and Annual Central Banking Seminar; a seminar on "Debt and Fiscal Management" hosted by the Committee on Hemispheric Financial Issues and a course on "Building a Modern Information Centre/Library" hosted by Central Banking Publications Limited.

Participation in other overseas programmes by Bank staff included a Bank of America International Payments Workshop, Crown Agents' Foreign Exchange Management Course, the Federal Reserve Bank of New York's course on "Payments Systems" and a CEMLA/BIS workshop on "The Contribution of Payment Systems to Financial Stability", which representatives from the Banking Department attended; a seminar on "Key Management Issues for Central Banks" attended by the Deputy Manager Exchange Control; the Federal Reserve Bank of New York's Management and Operations Course attended by the Deputy Manager, Accounts; a Project Management Course offered by UNZ & Co. and attended by an assistant manager from the Governor's Office; two computer courses attended by technicians from Computer Department and the Economic and Operative Aspects of Central Banking Course hosted jointly by CEMLA and the Bank of Guyana. In addition to these programmes, familiarization visits were made to the Bank of America by two officers of the Banking Department and to the Eastern Caribbean Central Bank and the Central Bank of Trinidad and Tobago by four officers of the Security Division.

The Bank also availed itself of domestic training opportunities and facilitated several in-house courses, including the annual Induction Training Course, a Balance of Payments Course in conjunction with CEMLA, Basic First Aid and CPR Training and computer training by J. D. Edwards and the Premier Group. Training sessions were also conducted for management and supervisory staff on the new Performance Management System being implemented by the Bank, which included the annual Strategy Event for Management held in October.

In-service awards for full-time study at The College of The Bahamas were granted to Senior Assistant Manager Charmaine Smith, Exchange Control Assistant Cheryl Fountain and Banking Assistant Melony Leadon.

At the annual Long Service Awards Ceremony in January, employees who in 1999 had attained ten, twenty and thirty years of service were recognized and presented newly designed long service pins.

Public Relations

The Bank hosted several outstanding exhibitions in its Art Gallery during the year, including the Commonwealth Bank Group Show featuring artists such as Eddie Minnis, Brent Malone, Chan Pratt and Chantal Bethel. Among the solo exhibitions were: Elizabeth Turnbull, Carl Bethel, Jeff Lewis and Moya Strachan. The After School Art Exhibition organized by Sue Bennet-Williams displayed the works of many young emerging artists.

The Bank's Annual Art Exhibition and Competition, held 8th November to 22nd December 2000, again attracted many young artists competing in the "High School" and "Open" categories.

Staff Complement

As at December 31, 2000, the staff complement was 210. Twenty-five persons were recruited, twelve terminated their employment and three staff members retired. The Bank also mourned the loss of Mr. Hubert Talbot, Handyman.

Acknowledgements

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

The Bank's Financial Statement for the year ended December 31, 2000, along with comparative figures for 1999 are shown on pages 36 to 55.

Total assets of the Central Bank decreased by $4.1 million (0.8%). In particular, external assets decreased by $61.4 million (15.2%) to $342.5 million, led by a $61.3 million (34.0%) decline in foreign currency deposits to $119.2 million, which contrasted with a marginal increase in marketable securities to $210.4 million. A strong offset was provided by "Other Assets" which grew by $56.8 million (65.2%) to $143.9 million, primarily on account of a more than four-fold hike in holdings of Bahamas Government Treasury Bills to $66.3 million together with a more moderate $3.3 million increase in Bahamas Government Registered Stocks to $8.9 million.

Under the Central Bank's liabilities, the contraction was concentrated in demand obligations, which was down by $8.4 million (2.0%) to $394.0 million. Currency in circulation fell by $7.2 million (3.2%) to $216.0 million, and deposits held for banks, by $5.5 million (3.7%) to $144.8 million. Meanwhile, other liabilities declined by $0.7 million (5.0%) to $13.3 million, while the capital and reserves increased by $4.9 million (5.7%) to $91.0 million.

Despite a decline in average external reserve balances during 2000, the operating income earned by the Bank improved by $2.8 million (11.3%) to $27.7 million due to higher interest yields, while operational expenses declined by $1.6 million (9.4%) to $15.3 million. Consequently, the operational profit for 2000 rose to $12.4 million from $7.9 million in 1999. After adjustments for exchange rate gains and loss provisions, the profit for the year stood higher at $11.9 million vis-à-vis $8.0 million last year.

The Central Bank of The Bahamas
Financial Statements

31 December 2000

BDO Mann Judd
P O Box N 10144
Nassau, Bahamas

Pannell Kerr Forster
P O. Box N 8335
Nassau, Bahamas

The 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 2000 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 2000 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.

The financial statements of The Central Bank of The Bahamas for the year ended 31 December 1999 were audited by other joint auditors whose report dated 18 February 2000 expressed an unqualified opinion on those statements.

BDO Mann Judd

Pannell Kerr Forster

Chartered Accountants
Nassau Bahamas
April 23, 2001

THE CENTRAL BANK OF THE BAHAMAS

Balance Sheet

December 31, 2000, with comparative figures for 1999

(Expressed in Bahamian Dollars)

	Notes	2000 $	1999 $
ASSETS			
FIXED ASSETS	4	11,976,086	11,498,139
EXTERNAL ASSETS	5		
Foreign currency deposits		119,260,566	180,574,518
Marketable securities issued or guaranteed by foreign governments	6	210,434,632	209,513,719
Accrued interest receivable on foreign currency		4,621,071	5,326,181
International Monetary Fund	7		
Bahamas reserve tranche		8,128,765	8,553,279
Special drawing rights		115,819	26,661
		342,560,853	403,994,358
OTHER ASSETS			
Bahamas Government treasury bills	8	66,254,884	13,965,882
Bahamas Mortgage Corporation bonds	9	300,000	300,000
Advances to the Bahamas Government	10	53,518,608	53,518,608
Bahamas Government registered stocks	11	8,876,700	5,582,100
Loans to Bahamas Government agency	12	7,550,000	6,450,000
The Bridge Authority bonds	13	510,100	610,400
Investment in The Deposit Insurance Corporation	14	--	500,000
Accrued interest, receivables and other accounts		6,897,685	6,205,305
		143,907,977	87,132,295
		$498,444,916	$502,624,792

The notes on pages 43 to 55 form an integral part of these financial statements.

THE CENTRAL BANK OF THE BAHAMAS

Balance Sheet

December 31, 2000, with comparative figures for 1999

(Expressed in Bahamian Dollars)

	Notes	2000 $	1999 $
LIABLITIES, CAPITAL AND RESERVES			
DEMAND LIABILITIES			
Notes in circulation		204,578,852	212,764,510
Coins in circulation		11,420,378	10,440,031
Deposits by commercial banks	15	144,844,962	150,343,734
Deposits by the Bahamas Government and Bahamas Government agencies		22,707,080	21,269,827
Deposits by international agencies	16	861,701	1,092,430
Accrued interest, payables and other accounts		2,704,215	2,090,278
Provision for payment into the Consolidated Fund		7,000,000	4,500,000
		394,117,188	402,500,810
OTHER LIABILITIES			
International Monetary Fund allocation of special drawing rights	17	13,328,747	14,024,822
CAPITAL AND RESERVES			
Authorised and fully paid capital		3,000,000	3,000,000
Exchange equalisation account	18	577,779	427,668
Contingency reserve	18	750,000	750,000
Other reserves	18	28,603,624	22,221,371
General reserves	18	58,067,578	59,700,121
		90,998,981	86,099,160
		$498,444,916	$502,624,792

Approved on behalf of the Board:

Governor

Director

The notes on pages 43 to 55 form an integral part of these financial statements.

THE CENTRAL BANK OF THE BAHAMAS

Statement of Profit

Year Ended December 31, 2000, with comparative figures for 1999

(Expressed in Bahamian Dollars)

	Notes	2000 $	1999 $
INCOME	19	27,680,915	24,870,368
EXPENSES	20	15,294,945	16,880,964
OPERATING PROFIT		12,385,970	7,989,404
Gain on movement of currency exchange rates		13,851	105,571
The Deposit Insurance Corporation provision	14	(500,000)	--
Loan loss provision	21	--	(200,000)
NET PROFIT FOR THE YEAR		$11,899,821	$7,894,975

The notes on pages 43 to 55 form an integral part of these financial statements.

THE CENTRAL BANK OF THE BAHAMAS

Statement of Changes in Capital and Reserves

Year Ended December 31, 2000,

(Expressed in Bahamian Dollars)

	Authorised and fully paid capital $	Exchange equalisation account $	Contingency reserve $	Other reserves $	General reserves $	Total $
Balance at 31 December 1998	3,000,000	344,070	750,000	30,340,739	48,269,376	82,704,185
Net profit for the year	--	--	--	--	7,894,975	7,894,975
Transfer of unrealised exchange gains	--	83,598	--	--	(83,598)	--
Transfer from other reserves to general reserves	--	--	--	(8,119,368)	8,119,368	--
Transfer to Consolidated Fund	--	--	--	--	(4,500,000)	(4,500,000)
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)	--
Proposed 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**

The notes on pages 43 to 55 form an integral part of these financial statements.

THE CENTRAL BANK OF THE BAHAMAS

Statement of Cash Flows

Year Ended December 31, 2000, with comparative figures for 1999

(Expressed in Bahamian Dollars)

	2000 $	1999 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	11,899,821	7,894,975
Adjustment for items not involving the movement of cash:		
Amortisation of discounts/premiums on marketable securities	634,712	767,265
Depreciation	953,173	852,236
The Deposit Insurance Corporation provision	500,000	--
Loan loss provision	--	200,000
Loss on sale of fixed assets	--	2,048
Unrealised exchange gains	(150,111)	(83,598)
Interest income	(25,683,016)	(23,546,754)
Interest expense	588,963	487,031
Net cash used in operating activities before changes in operating assets and liabilities	(11,256,458)	(13,426,797)
(Increase)/decrease in operating assets:		
International Monetary Fund – Special Drawing Rights	(95,206)	6,203
Receivables and other accounts	(570,581)	(157,760)
(Decrease)/increase in operating liabilities:		
Notes in circulation	(8,185,658)	48,893,817
Coins in circulation	980,347	963,325
Deposits by commercial banks	(5,498,772)	13,476,980
Deposits by The Bahamas Government and Bahamas Government agencies	1,437,253	12,250,349
Deposits by international agencies	(230,729)	43,706
Payables and other accounts	602,782	578,584
Net cash (used)/provided by operating activities	**$(22,817,022)**	**$62,628,407**

The notes on pages 43 to 55 form an integral part of these financial statements.

THE CENTRAL BANK OF THE BAHAMAS

Statement of Cash Flows

Year Ended December 31, 2000, with comparative figures for 1999

(Expressed in Bahamian Dollars)

	2000 $	1999 $
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities	(24,555,625)	(153,199,219)
Proceeds from maturities of marketable securities	23,000,000	26,250,000
Purchases of fixed assets	(1,431,120)	(1,472,835)
Proceeds from sale of fixed assets	--	10,000
Purchases and rediscounts of Bahamas Government treasury bills	(140,253,818)	(111,107,831)
Proceeds from sales and maturities of Bahamas Government treasury bills	87,964,816	97,141,949
Investment in The Deposit Insurance Corporation	--	(500,000)
Purchase of The Bridge Authority bonds	(9,700)	(610,400)
Proceeds from sales of The Bridge Authority bonds	110,000	--
Purchases of Bahamas Government registered stocks	(10,000,600)	(15,011,300)
Proceeds from sales and maturities of Bahamas Government registered stocks	6,706,000	17,837,100
Loan to Bahamas Government agency	(1,500,000)	(2,000,000)
Repayments on loan to Bahamas Government agency	400,000	285,000
Interest received	26,265,624	21,484,814
Net cash used by investing activities	(33,304,423)	(120,892,722)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment to the Consolidated Fund	(4,500,000)	(4,100,000)
Interest paid	(577,818)	(488,822)
Net cash used by financing activities	(5,077,818)	(4,588,822)
Net decrease in cash and cash equivalents	(61,199,263)	(62,853,137)
Cash and cash equivalents at beginning of the year	180,607,524	243,524,306
Unrealised exchange loss	(115,392)	(63,645)
Cash and cash equivalents at end of the year	$119,292,869	$180,607,524
Cash and cash equivalents are comprised of the following:		
Foreign currency deposits	$119,260,566	$180,574,518
Cash on hand (included in accrued interest, receivables and other accounts)	32,303	33,006
	$119,292,869	$180,607,524

The notes on pages 43 to 55 form an integral part of these financial statements.

1. INCORPORATION AND ACTIVITIES

The Central Bank of The Bahamas (the Bank) was established under The Central Bank of The Bahamas Act Chapter 321, and was continued under The Central Bank of The Bahamas Act, 2000 (the Act). As at 31 December 2000, the Bank had 210 (1999: 204) 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.

<u>Revenue recognition</u>

Revenues are recognised under the accruals concept.

<u>Foreign currencies</u>

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

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

3. ACCOUNTING POLICIES (cont'd)

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.

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.

Investment in the Deposit Insurance Corporation

The investment in the Deposit Insurance Corporation is stated at cost less provision.

3. ACCOUNTING POLICIES (cont'd)

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.

4. FIXED ASSETS

	Land	Buildings & renovations	Office equipment	Computer software	Office furniture & fittings	Other fixed assets	Total
	$	$	$	$	$	$	$
COST							
1 January 2000	2,398,962	9,461,796	3,987,857	4,445,056	1,979,478	498,393	22,771,542
Additions	53,976	913,813	206,581	109,513	126,177	21,060	1,431,120
31 December 2000	2,452,938	10,375,609	4,194,438	4,554,569	2,105,655	519,453	24,202,662
DEPRECIATION							
1 January 2000	–	2,478,614	2,595,335	4,082,801	1,780,659	335,994	11,273,403
Charge for the year	–	189,536	412,974	231,613	80,532	38,518	953,173
31 December 2000	–	2,668,150	3,008,309	4,314,414	1,861,191	374,512	12,226,576
NET BOOK VALUE							
31 December 2000	**$ 2,452,938**	**$ 7,707,459**	**$ 1,186,129**	**$ 240,155**	**$ 244,464**	**$ 144,941**	**$11,976,086**
31 December 1999	**$ 2,398,962**	**$ 6,983,182**	**$ 1,392,522**	**$ 362,255**	**$ 198,819**	**$ 162,399**	**$11,498,139**

Buildings and renovations include work in progress totalling $739,079 (1999: nil), which is not depreciated.

5. EXTERNAL ASSETS

External assets comprise those assets defined as such by Section 18(1) of the Act. The Act also requires that the value of external assets shall not at any time be less than 50% of the value of the aggregate of the notes and coins in circulation and other demand liabilities of the Bank. At the year end, external assets represented approximately 88.49% (1999: 100.37%) 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 2000 and 1999, all such marketable securities held by the Bank mature within 5 years.

6. MARKETABLE SECURITIES ISSUED OR GUARANTEED BY FOREIGN GOVERNMENTS (cont'd)

These securities mature as noted below:

	2000 $	1999 $
Within 60 days	7,999,754	2,999,602
60 days to 1 year	29,799,581	27,991,421
1 to 5 years	172,635,297	178,522,696
	$210,434,632	$209,513,719

Market value of these securities at the balance sheet date was $212,734,550 (1999: $207,356,975). These securities bear interest at rates varying between 4.25% and 7.75% (1999: 4.25% and 9.13%) per annum.

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:

	2000		1999	
	SDR (millions)	$	SDR (millions)	$
Quota	130.3	169,767,920	130.3	178,640,992
Subscription payments in promissory notes	(118.7)	(154,672,636)	(118.7)	(162,757,068)
Subscription payments in currency	(5.4)	(6,966,519)	(5.4)	(7,330,645)
Reserve tranche	SDR6.2 million	$8,128,765	SDR6.2 million	$8,553,279

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

7. INTERNATIONAL MONETARY FUND (cont'd)

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 $43,782,447 (1999: $33,057,864). 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 3.33% to 4.85% (1999: 3.20% to 3.90%) per annum.

8. BAHAMAS GOVERNMENT TREASURY BILLS

Bahamas Government Treasury Bills are discounted at rates ranging between 1.22% and 2.49% (1999: 1.13% and 3.53%) and mature as noted below

	2000	**1999**
	$	**$**
Within 60 days	37,416,802	13,965,882
60 days to 1 year	28,838,082	--
	$66,254,884	$13,965,882

9. BAHAMAS MORTGAGE CORPORATION BONDS

These bonds bear interest at a rate of 2.00% (1999:2.00%) per annum below the Prime rate and mature as noted below:

	2000	**1999**
More than 5 years	$300,000	$300,000

10. ADVANCES TO THE BAHAMAS GOVERNMENT

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

At the balance sheet date, advances to the Government approximated 10.0% (1999:10.0%) of the lesser of such revenues. Of those advances $16,500,000 (1999: $16,500,000) bears interest at rates between 4.2% and 4.9% (1999: 4.2% and 4.9%) per annum. The remaining advances were interest free during both 2000 and 1999. 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 2.27% (1999: 1.36%) 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 2000 or 1999.

Bahamas Government Registered Stocks bear interest at rates ranging between 5.75% and 10.5% (1999: 5.75% and 10.50%) per annum and mature as noted below:

	2000	1999
	$	$
60 days to 1 year	89,000	-
1 to 5 years	14,500	106,000
More than 5 years	8,773,200	5,476,100
	$ 8,876,700	$ 5,582,100

12. LOANS TO BAHAMAS GOVERNMENT AGENCY

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

The advances bear interest at 2.00% (1999: 2.00%) per annum and mature as noted below:

	2000	1999
	$	$
1 to 5 years	375,000	500,000
More than 5 years	7,175,000	5,950,000
	$ 7,550,000	$ 6,450,000

13. THE BRIDGE AUTHORITY BONDS

These bonds bear interest at rates ranging from 1.00% to 1.25% (1999:1.00% to 1.25%) per annum over the Prime rate, and mature as noted below:

	2000	1999
More than 5 years	$ 510,000	$ 610,400

14. INVESTMENT IN 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 obtain 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 provision of $500,000 (1999: nil) against this asset.

15. 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.

16. 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.

17. 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 3.81% and 4.85% (1999: 3.42% and 4.43%) per annum and is repayable on demand.

18. RESERVES

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

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

c. Other reserves – In accordance with the provisions of Section 7(1) of the Act, the Bank has determined that an amount of $6,382,253 should be transferred from general reserves to other reserves. In 1999 an amount of $8,119,368 was transferred from other reserves to the general reserves.

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

The balance of the general reserves at the year end amounted to $58,067,578 (1999: $59,700,121) equivalent to 15% (1999:15%) of demand liabilities prior to a provision of $7,000,000 (1999: $4,500,000) to be paid into the Consolidated Fund.

19. INCOME

	2000 $	1999 $
Interest income	25,683,016	23,546,754
Other operating income	1,997,899	1,323,614
	$ 27,680,915	$ 24,870,368

20. EXPENSES

	2000 $	1999 $
General & administrative expenses	6,392,839	7,992,606
Staff costs	7,359,970	7,549,091
Depreciation expense	953,173	852,236
Interest expense	588,963	487,031
	$ 15,294,945	$ 16,880,964

21. LOAN LOSS PROVISION

Short-term loans are granted to the commercial banks, upon application, to the Bank. Sections 29(2)(a) and 29(2)(b) of the Act require that these loans should not exceed 85% of the market value of the instruments held as security for these loans. Further, the loans should not extend beyond the maturity date of the instrument itself or 93 days, whichever is longer.

In 1997, two demand loans totaling $800,000 were made to a commercial bank at an annual rate of interest of 6.50%. Subsequent to the granting of those loans, this commercial bank was placed into compulsory liquidation. The Bank has made a provision of $800,000 (1999: $800,000) against these loans.

22. COMMITMENTS

The capital commitments of the Bank as at the balance sheet date, were $163,367 (1999: $2,610,991).

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 17, all of the Bank's significant financial assets and liabilities mature within one year of the balance sheet date.

25. INTEREST RATE RISK

Except as described in notes 6 to 17, 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. CONCENTRATIONS OF ASSETS AND LIABILITIES

The Bank has the following concentrations of assets and liabilities.

EXTERNAL ASSETS	**2000**	**1999**
Geographic Region	**%**	**%**
North America	92.48	78.72
Europe	0.74	17.79
Other	6.78	3.49
Industry		
Financial Sector	100.00	100.00

OTHER ASSETS	**2000**	**1999**
Geographic Region	**%**	**%**
Bahamas	100.00	100.00
Industry		
Government Sector	100.00	100.00

DEMAND LIABILITES	**2000**	**1999**
Geographic Region	**%**	**%**
Bahamas	99.78	99.73
Other	0.22	0.27
Industry		
Financial Sector	100.00	100.00

OTHER LIABILITIES	**2000**	**1999**
Geographic Region	**%**	**%**
International Agencies	100.00	100.00
Industry		
Financial Sector	100.00	100.00

28. DEFINED BENEFIT CONTRIBUTORY PENSION PLAN

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

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

	2000	1999
	$	$
Present value of funded obligations	(20,742,062)	(19,103,786)
Fair value of plan assets	24,260,148	22,326,186
	3,518,086	3,222,400
Unrecognised actuarial gains	(596,165)	(432,318)
Net assets calculated in accordance with paragraph 54 of International Accounting Standard 19	2,921,921	2,790,082
less: amounts not recognised as assets in accordance with paragraph 58 of International Accounting Standard 19	(2,367,972)	(2,790,082)
	$ 553,949	$ --

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

	2000	1999
	$	$
Current service cost	717,229	696,028
Interest cost	1,303,602	1,201,892
Expected return on plan assets	(1,572,649)	(1,430,123)
	448,182	467,797
less: (decrease)/increase in amounts limited by paragraph 58 of International Accounting Standard 19	(422,110)	102,894
	$ 26,072	$ 570,691

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

This is the first year that the Bank has adopted International Accounting Standard 19: Employee Benefits. This has resulted in a decreased charge against profit in the current year of $553,949. However there was no resultant change in the amounts charged against profit in prior years.Therefore comparative figures are not restated.

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

	2000 $	1999 $
Net asset at beginning of the year	--	--
Net expense recognised in the statement of profit	(26,072)	(570,691)
Employer contributions	580,021	570,691
Net asset at end of the year	$ 553,949	$ --

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

	2000	1999
Discount rate	6.75% p.a.	6.75% p.a.
Expected return on plan assets	7.00% p.a.	7.00% p.a.
Expected rate of salary increase	7.08% p.a.	7.08% p.a.
Average expected remaining working lives of employees (years)	16.9	17.0

The actual return on plan assets during the year was $1,653,494 (1999:$1,667,843).

29. CORRESPONDING FIGURES

The presentation of certain corresponding figures has been reclassified to conform with the current year's presentation.

P.O. Box N-4868
Nassau, N.P.,
The Bahamas
Tel: 242-322-2193
Fax: 242-322-4321