

LISTING PARTICULARS



U.S.\$300,000,000

The Commonwealth of The Bahamas

5.750% Notes due 2024

The Commonwealth of The Bahamas offered U.S.\$300,000,000 aggregate principal amount of its 5.750% Notes due 2024. The notes bear interest at the rate of 5.750% per year. Interest on the notes is payable on January 16 and July 16 of each year, beginning on July 16, 2014. The notes will mature on January 16, 2024. We may redeem some or all of the notes at any time. The redemption prices are discussed under the caption “Description of the Notes—Optional Redemption.”

The notes are our direct, general, unsecured and unconditional obligations and rank *pari passu*, without any preference or priority of payment, among themselves and with all our other present and future unsecured and unsubordinated indebtedness. The notes are backed by the full faith and credit of the Commonwealth of The Bahamas.

Application has been made to list the notes on the Luxembourg Stock Exchange and to have the notes admitted to trading on the Euro MTF market of the Luxembourg Stock Exchange. These listing particulars (“Listing Particulars”) constitute a prospectus according to Luxembourg law dated July 10, 2005 on Prospectuses for Securities, as amended.

The notes have not been registered under the U.S. Securities Act of 1933, as amended, or the “Securities Act,” or the securities laws of any other jurisdiction. Accordingly, the notes were offered and sold by the initial purchasers within the United States only to qualified institutional buyers in accordance with Rule 144A under the Securities Act and outside the United States in accordance with Regulation S under the Securities Act. Prospective purchasers that are qualified institutional buyers are hereby notified that the seller of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on transfers of the notes, see “Notice to Investors.”

Investing in the notes involves risks. See “Risk Factors” beginning on page 7 of these Listing Particulars.

Price: 100% plus accrued interest, if any, from January 16, 2014.

The initial purchasers delivered the notes to purchasers, in book-entry form through the facilities of The Depository Trust Company and its direct and indirect participants, including Euroclear Bank S.A./N.V. and Clearstream Banking, *société anonyme*, on or about January 16, 2014.

J.P. Morgan

RBC Capital Markets

April 17, 2014



You should rely only on the information contained in these Listing Particulars. We have not authorized anyone to provide you with different information. We did not, and the initial purchasers did not, make an offer of these securities in any state or jurisdiction where the offer was not permitted. You should not assume that the information contained in these Listing Particulars is accurate as of any date other than January 13, 2014.

Reference in these Listing Particulars to “The Bahamas,” “the Commonwealth,” “the Government,” “we,” “us” and “our” refer to the Commonwealth of The Bahamas.

TABLE OF CONTENTS

<p>Statement Regarding Forward-Looking Disclosureiv</p> <p>Presentation of Economic, Financial and Other Informationv</p> <p>Submission to Jurisdictionvi</p> <p>Summary1</p> <p>Risk Factors7</p> <p>Use of Proceeds11</p> <p>The Commonwealth of the Bahamas12</p> <p style="padding-left: 20px;">The Economy16</p> <p style="padding-left: 20px;">Monetary and Financial System25</p> <p style="padding-left: 20px;">External Sector of the Economy31</p>	<p>Government Enterprises35</p> <p>Government Finance38</p> <p>Public Sector Debt45</p> <p>Description of the Notes54</p> <p>Notice to Investors67</p> <p>Enforcement of Civil Liabilities69</p> <p>Taxation71</p> <p>Plan of Distribution74</p> <p>General Information78</p> <p>Official Statements78</p> <p>Legal Matters78</p>
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Notwithstanding anything in these Listing Particulars to the contrary, each prospective investor (and each employee, representative or other agent of the prospective investor) may disclose to any and all persons, without limitation of any kind, the U.S. tax treatment and U.S. tax structure of any offering and all materials of any kind (including opinions or other tax analyses) that are provided to the prospective investor relating to such U.S. tax treatment and U.S. tax structure, other than any information for which nondisclosure is reasonably necessary in order to comply with applicable securities laws.

We furnished the information contained in these Listing Particulars. The initial purchasers made no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in these Listing Particulars. Nothing contained in these Listing Particulars was, or shall be relied upon as, a promise or representation by the initial purchasers as to the past or future. The initial purchasers did not independently verify any of the information contained herein (financial, legal or otherwise) and assumed no responsibility for the accuracy or completeness of any such information.

Neither the U.S. Securities and Exchange Commission, any state securities commission nor any other regulatory authority has approved or disapproved of the securities nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy or adequacy of these Listing Particulars. Any representation to the contrary is a criminal offense.

The notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and applicable state securities laws pursuant to registration or exemption therefrom. As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. Please refer to the sections in these Listing Particulars entitled “Plan of Distribution” and “Notice to Investors.”

In making an investment decision, prospective investors must rely on their own examination of us and the terms of the offering, including the merits and risks involved. Prospective investors should not construe anything in these Listing Particulars as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the securities under applicable legal investment or similar laws or regulations.

In these Listing Particulars, we rely on and refer to certain economic and financial data. We obtained some of this data from independent publications or other publicly available information. To our knowledge, based on the information provided, no facts have been omitted which would render such information misleading.

We confirm that, to the best of our knowledge, as of January 13, 2014, the information contained in these Listing Particulars relating to The Bahamas and the notes is in all material respects in accordance with the facts and does not omit anything likely to affect the import of such information in any material respect. We are responsible for the accuracy and completeness of the information contained in these Listing Particulars.

Application has been made to list the notes on the official list of the Luxembourg Stock Exchange and to trading on the Euro MTF Market. We will use our reasonable efforts to facilitate the listing and to maintain the listing of the notes on the official list of the Luxembourg Stock Exchange for trading on the Euro MTF Market so long as notes are outstanding; *provided* that, if at any time we determine that maintenance of listing becomes unduly onerous or requires disclosure of information beyond what we would be required to make publicly available in the Commonwealth, we may delist the notes from the official list of the Luxembourg Stock Exchange and the Euro MTF Market. If the notes are delisted from the official list of the Luxembourg Stock Exchange and the Euro MTF Market, we will use our reasonable efforts to list the notes on another internationally recognized securities exchange.

These Listing Particulars include particulars given in compliance with the listing regulations of the Luxembourg Stock Exchange for trading on the Euro MTF Market for the purpose of giving information with regard to the Commonwealth. We accept full responsibility for the accuracy of the information contained in these Listing Particulars and confirm having made all reasonable inquiries that, to the best of our knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

These Listing Particulars contain descriptions that to our knowledge are accurate with respect to certain documents, but reference is made to the actual documents for complete information. All such descriptions are qualified in their entirety by such reference. Copies of documents referred to herein will be made available to prospective investors upon request to us or the initial purchasers.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER RSA 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO RESIDENTS OF THE BAHAMAS

PURSUANT TO SECTION 92 OF THE *SECURITIES INDUSTRY ACT, 2011*, THESE LISTING PARTICULARS ARE EXEMPT FROM THE REGISTRATION REQUIREMENTS SET OUT IN THE SAID ACT. ACCORDINGLY, THESE LISTING PARTICULARS HAVE NOT BEEN APPROVED BY OR REGISTERED WITH THE SECURITIES COMMISSION OF THE BAHAMAS.

STATEMENT REGARDING FORWARD-LOOKING DISCLOSURE

These Listing Particulars include forward-looking statements regarding the Commonwealth which represent the Government's expectations or beliefs concerning future events that involve risks and uncertainties, including those associated with the effect on The Bahamas of Bahamian, U.S. and worldwide economic conditions, the ability of the Government to implement its strategies for economic growth, the ability of the Government to continue to attract tourists to The Bahamas, the possible effect of a hurricane on the Bahamian economy and other factors. Other than statements of historical facts included in these Listing Particulars, all statements, including statements under "Summary," "The Commonwealth of The Bahamas," "The Economy," "Monetary and Financial System," "External Sector of the Economy," "Government Finance," "Public Sector Debt" and elsewhere herein, are forward-looking statements. These statements are based on certain assumptions and analyses the Government has made in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors believed to be appropriate in the circumstances. Although the Government believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to be correct. Certain important factors that could cause actual results to differ materially from the Government's expectations are disclosed in these Listing Particulars, including in conjunction with the forward-looking statements included in these Listing Particulars, such as the following:

- our financial condition, including our ability to increase revenues and reduce expenditures;
- declines in the tourism or financial services industries;
- extreme weather conditions, particularly hurricanes and tropical storms;
- difficult conditions in the Bahamian economy, as well as the global economy;
- the fixed foreign exchange regime that is focused on maintaining parity with the U.S. dollar and requires us to maintain adequate levels of foreign currency reserves; and
- other factors identified in these Listing Particulars.

All of the forward-looking statements related to the Government made in these Listing Particulars are qualified by cautionary statements. The Government assumes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

PRESENTATION OF ECONOMIC, FINANCIAL AND OTHER INFORMATION

In these Listing Particulars, unless otherwise specified, all currency amounts are denominated in Bahamian dollars (\$). The Bahamian dollar circulates freely with the U.S. dollar (U.S.\$) in The Bahamas and its value has been maintained by the Government at parity with the U.S. dollar since 1973, as described in “Monetary and Financial System—Exchange Rates and Exchange Controls.”

All economic and financial data included in these Listing Particulars are presented on a calendar year basis, except for Government revenue and expenditure data (historical and budgetary), which are presented on a fiscal year basis and except for other data as otherwise indicated. The fiscal year of The Bahamas currently consists of the twelve months ending June 30 of each year. Government finance statistics are compiled in accordance with the government finance statistics manual prepared by the International Monetary Fund, or the “IMF.”

Certain revenue, expenditure and other financial information included in these Listing Particulars for certain fiscal periods, and certain economic data for certain calendar years, are available only on a provisional basis pending final compilation and completion of analysis by the Government as described in “Government Finance—Budget Process.” Government accounts are considered “provisional” until the audit report, prepared by the Auditor-General of the Commonwealth, relating to such accounts is presented to Parliament. Provisional information is identified herein as “2012^(p)” or “Fiscal 2012/2013^(p)” and provisional information for other fiscal years is referred to in a corresponding manner. Except as otherwise noted in these Listing Particulars, accounts for fiscal year 2008/2009 through 2011/2012 have been audited by the Auditor-General of the Commonwealth and have been submitted to Parliament. Therefore, except as otherwise noted in these Listing Particulars, we provided any revenue, expenditure and other financial information included in these Listing Particulars for any fiscal year subsequent to fiscal 2011/2012, and any economic data included in these Listing Particulars for any calendar year subsequent to 2012, on a provisional basis.

The financial statements of the Commonwealth included herein have been prepared in accordance with International Financial Reporting Standards and on a modified cash basis. These financial statements are available on the Government’s website at www.bahamas.gov.bs. These financial statements and any other information provided on the Government’s website are not part of, or incorporated by reference in, these Listing Particulars.

Estimates of Gross Domestic Product, or “GDP,” and its components that are included in these Listing Particulars have been prepared by the Department of Statistics of the Commonwealth of The Bahamas.

As used herein, the term “public sector debt” includes direct internal and external debt of the Government and, unless the context otherwise requires, internal and external debt of the public corporations of The Bahamas. In light of the Government’s ownership interest in these entities, the Government is the guarantor by contract of certain indebtedness of the public corporations, and the incurrence of any debt by any public corporation is subject to Government approval. The Government also provides financial assistance to certain of these public corporations to enable them, among other things, to meet their obligations under various loan agreements as described in “Government Enterprises—Public Corporations” and “Public Sector Debt.”

Components contained in tabular information in these Listing Particulars may not add up to the totals set forth in the tables due to rounding.

As used herein, the term “n.a.” is used to identify economic or financial data that is not available.

SUBMISSION TO JURISDICTION

The Bahamas is a foreign sovereign government. Consequently, it may be difficult for investors to obtain or realize judgments of courts in the United States against The Bahamas. The Government will (1) agree that any legal suit, action or proceeding arising out of or relating to the notes may be instituted by the note holders in any U.S. federal or New York state court of competent jurisdiction located in the Borough of Manhattan, The City of New York, New York, (2) to the fullest extent that it may effectively do so under applicable U.S. law, waive any objection to venue of any such legal suit, action or proceeding and (3) subject to certain exceptions, waive any immunity (including sovereign immunity) from the jurisdiction of any such U.S. federal or New York state court of competent jurisdiction located in the Borough of Manhattan, The City of New York, New York. The Government appointed the Consul General of the Commonwealth of The Bahamas in New York, New York, as its agent for service of process. The above-mentioned submission to jurisdiction, appointment of an agent for service of process and waiver of immunity are subject to significant limitations and qualifications as set forth under “Description of the Notes—Governing Law and Submission to Jurisdiction.”

SUMMARY

The following summary is qualified in its entirety by, and is subject to, the detailed financial and other information contained elsewhere in these Listing Particulars.

THE COMMONWEALTH OF THE BAHAMAS

The Commonwealth of The Bahamas is an archipelago of approximately 700 islands and cays, spreading over 100,000 square miles of the Atlantic Ocean. From its westernmost island, which lies approximately 50 miles east of Florida, The Bahamas stretches 750 miles in a southeasterly direction to within 50 miles of Haiti and Cuba. The total population of The Bahamas is approximately 351,000, most of which is concentrated on New Providence (on which the capital of the country, Nassau, is located) and Grand Bahama.

The Bahamas, which was formerly a British colonial territory, became an independent self-governing nation within the British Commonwealth on July 10, 1973. The political system in The Bahamas is based on the British Westminster model with a Governor General, a Prime Minister and a bicameral Parliament. The Bahamas has enjoyed political stability since independence. The two primary political parties in The Bahamas are the Progressive Liberal Party, the current ruling party, which holds parliamentary majority, and the Free National Movement, which was in office from May 2007 until May 2012. See “The Commonwealth of The Bahamas—Government, Political System and Constitution.”

The tourism and financial services industries are key contributors to the Bahamian economy. These two sectors of the economy, which include tourism-driven retail sales, real estate, construction and manufacturing, together historically account for approximately 55% of total GDP and over 60% of employment. Tourism has accounted for an estimated 40% of GDP over the last five years and has employed, directly or indirectly, over half of the workforce. In 2012, The Bahamas attracted approximately 5.9 million visitors, who spent approximately \$2.4 billion in the country. More than 75% of these visitors were from the United States. Over the past several years, the Government has intensified efforts to improve the competitiveness of the tourism sector, principally by promoting new investment in hotels and other facilities, improving infrastructure, developing and enhancing tourist attractions and expanding marketing efforts.

The financial services sector (which consists exclusively of banking and insurance companies) of the economy has also historically accounted for a significant percentage of GDP. The Bahamas has traditionally been an attractive jurisdiction for offshore financial services businesses because of its favorable tax regime and legislative environment. The Government enacted several measures in 2000 to strengthen the regulatory and supervisory regime in order to comply with international “best practices” standards and enhance the attractiveness of The Bahamas as an offshore financial services center. As of December 31, 2012, there were 268 banks and trust companies licensed in The Bahamas, compared to 278 as of December 31, 2011, and the Government estimates that the total asset base of offshore banks and trust companies was approximately \$371.0 billion as of December 31, 2012.

The Department of Statistics estimates that, since the height of the global economic recession in 2008 and 2009, during which real GDP decreased by 2.3% and 4.2%, respectively, real GDP has been improving. Real GDP grew by an estimated rate of 1.0% in 2010, by 1.7% in 2011 and by 1.8% in 2012. The Department of Statistics estimates that nominal GDP increased by 3.5% in 2012 from a slight decrease of 0.2% in 2011; however, these estimates are preliminary and are subject to adjustment after completion of analysis of economic data. The annual inflation rate in The Bahamas has averaged less than 3.2% in the last three years, and the Government expects that the fixed parity between Bahamian and U.S. dollars that has existed since 1973 will continue to help the inflation level remain relatively stable.

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

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

The Bahamas currently holds long-term foreign currency credit ratings of BBB from Standard & Poor's and Baa1 from Moody's Investor Services.

SELECTED ECONOMIC AND FINANCIAL INFORMATION

(in millions, except percentages)

	Fiscal Year Ended June 30,				Fiscal Year- to-Date May 31, 2013	Budget 2013/2014
	2009	2010	2011	2012		
Government Finance:						
Revenue and grants	\$1,324.22	\$1,302.54	\$1,432.98	\$1,446.73	\$1,250.34	\$1,493.16
Expenditure ⁽¹⁾	\$1,685.53	\$1,642.07	\$1,803.65	\$1,897.38	\$1,694.35	\$1,928.09
Overall budget deficit	\$(361.31)	\$(339.53)	\$(370.67)	\$(450.64)	\$(444.01)	\$(434.93)
Overall budget deficit as a percentage of nominal GDP ⁽²⁾	(4.62)%	(4.30)%	(4.71)%	(5.53)%	(5.35)%	n.a.
	Years Ended December 31,					
	2008	2009	2010	2011	2012	
The Economy:						
Nominal GDP ⁽³⁾	\$8,246.70	\$7,820.40	\$7,888.10	\$7,872.60	\$8,149.00	
Increase (decrease) in nominal GDP ⁽²⁾	(0.87)%	(5.17)%	0.87%	(0.20)%	3.51%	
Annual inflation rate	4.55%	1.96%	1.34%	3.20%	1.97%	
Balance of payments ^{(p)(3)}						
Current account balance ^{(p)(3)}	\$(871.70)	\$(808.50)	\$(796.80)	\$(1,065.70)	\$(1,424.30)	
Capital account balance ^{(p)(3)}	\$1,212.20	\$1,108.40	\$1,144.40	\$986.40	\$1,140.40	
Foreign exchange reserves	\$562.90	\$815.90	\$860.40	\$884.80	\$810.20	
Estimated increase (decrease) in real GDP ⁽⁴⁾	(2.30)%	(4.20)%	1.00%	1.70%	1.80%	
National Debt:						
National public sector debt	\$3,213.09	\$3,909.40	\$4,284.99	\$4,355.35	\$4,991.20	
National debt as a percentage of nominal GDP	38.96%	49.99%	54.32%	55.32%	61.25%	
Foreign currency public sector debt ⁽⁵⁾	\$859.90	\$1,189.60	\$1,407.70	\$1,453.10	\$1,867.50	
Foreign currency public sector debt as a percentage of nominal GDP	10.43%	15.21%	17.85%	18.46%	22.92%	
Foreign currency public sector debt service ⁽⁶⁾	\$108.10	\$618.38	\$237.74	\$186.08	\$192.14	
Foreign currency public sector debt service ratio ⁽⁷⁾	2.81%	20.20%	7.40%	5.37%	5.12%	

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

(2) Represents Department of Statistics estimates.

(3) Balance of payment accounts are subject to periodic revisions, which may affect data over several periods.

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

(5) Includes internal and external foreign currency debt of the Government and the public corporations (whether or not guaranteed by the Government).

(6) Includes all principal and interest payments on foreign currency-denominated debt of the Government and the public corporations (whether or not guaranteed by the Government). See "Public Sector Debt—Debt of Public Corporations."

(7) Represents foreign currency public sector debt service as a percentage of exports of goods and non-factor services. Non-factor services are services that do not generate interest, dividends or profits.

Sources: Department of Statistics, Treasury Accounts and Treasury Statistical Summary Printouts.

THE OFFERING

Issuer	The Commonwealth of The Bahamas.
The Notes.....	U.S.\$300,000,000 5.750% Notes due 2024.
The Offering	The notes were offered only (a) within the United States to “qualified institutional buyers” (as defined in Rule 144A under the Securities Act) in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (b) outside the United States in reliance on Regulation S under the Securities Act.
Issue Price.....	100% of the principal amount of the notes.
Maturity Date.....	The notes will mature on January 16, 2024.
Interest Payment Dates	The notes bear interest from their dates of original issuance payable semiannually in arrears on January 16 and July 16 of each year, commencing on July 16, 2014.
Status of Notes.....	The notes are direct, general, unsecured and unconditional obligations of the Government and rank <i>pari passu</i> , without any preference or priority of payment, among themselves and with all other present and future unsecured and unsubordinated indebtedness of the Government. The notes are backed by the full faith and credit of the Commonwealth of The Bahamas. See “Description of the Notes—Status of the Notes.”
Optional Redemption.....	<p>The notes are redeemable at any time by the Government, in whole or in part, at a redemption price equal to the greater of:</p> <ul style="list-style-type: none">• 100% of the principal amount of the notes to be redeemed; or• the sum of the present values of the Remaining Scheduled Payments (as defined under “Description of the Notes—Optional Redemption”) discounted, on a semiannual basis, at a rate equal to the sum of the applicable Treasury Rate (as defined under “Description of the Notes—Optional Redemption”) plus 50 basis points. <p>In either case, accrued interest, if any, will be paid to the date of redemption.</p>
Negative Pledge and Certain Covenants.....	The notes contain a negative pledge covenant and certain affirmative covenants. See “Description of the Notes—Negative Pledge” and “—Covenants.”

Use of Proceeds The Government used the net proceeds from the sale of the notes to finance general development in The Bahamas in the 2013/2014 fiscal year and to reduce its outstanding indebtedness under its U.S.\$50 million bridge loan, or the “Bridge Loan,” with RBC Royal Bank (Bahamas) Limited (the proceeds of which were utilized by the Government for such general development), which is an affiliate of one of the initial purchasers for this offering.

Withholding Taxes Payments of principal and interest in respect of the notes are not currently subject to withholding taxes in The Bahamas. The Government will, subject to certain exceptions, pay Additional Amounts (as defined under “Description of the Notes—Additional Amounts”) in respect of any future Bahamian withholding taxes as will result in receipt by the holders of notes of such amounts as would have been received by them had no withholding or deduction for such taxes been required. See “Description of the Notes—Additional Amounts.”

Form, Denomination and Transfer of Notes The notes were issued only in fully registered form, without interest coupons, in minimum denominations of U.S.\$200,000 and in integral multiples of U.S.\$1,000 in excess thereof.

The notes sold within the United States to qualified institutional buyers in reliance on Rule 144A are represented by a Global Note, referred to as the “Restricted 144A Global Note,” deposited with the Fiscal Agent (as defined under “Description of the Notes”) as custodian for The Depository Trust Company, or “DTC,” and registered in the name of DTC’s nominee. The notes sold outside the United States in reliance on Regulation S are represented by a separate Global Note, referred to as the “Regulation S Global Note,” and, together with the Restricted 144A Global Note, referred to as the “Global Notes,” deposited with the Fiscal Agent as custodian for DTC and registered in the name of DTC’s nominee.

DTC credited portions of the principal amount of the Global Notes to the accounts of persons who had DTC accounts, or “DTC participants,” designated by the initial purchasers (as defined herein), and ownership in such interests in the Global Notes is shown on, and the transfer of ownership thereof is effected only through, records maintained by DTC (with respect to interests of DTC participants) and the records of DTC participants (with respect to other owners of beneficial interests in the Global Notes). Except as described in these Listing Particulars, definitive notes will not be issued in exchange for beneficial interests in Global Notes. See “Description of the Notes—Form, Denomination, Book-Entry Procedures and Transfer.”

Transfer Restrictions.....	The notes have not been registered under the Securities Act. The notes are subject to restrictions on transfer and may only be offered in transactions exempt from or not subject to the registration requirements of the Securities Act. See “Notice to Investors.”
Fiscal Agent.....	The Bank of New York Mellon.
Governing Law	The notes are governed by and construed in accordance with the laws of the State of New York, United States of America.
Listing.....	Application has been made to list the notes on the Luxembourg Stock Exchange and to have the notes admitted to trading on the Euro MTF market of the Luxembourg Stock Exchange.
Risk Factors	See “Risk Factors” beginning on page 7 of these Listing Particulars for a discussion of factors you should carefully consider before deciding to invest in the notes.
CUSIP and ISIN	For the Restricted 144A Global Note, the CUSIP number is 056732 AH3 and the ISIN number is US056732AH32. For the Regulation S Global Note, the CUSIP number is P06518 AF4 and the ISIN number is USP06518AF40.

RISK FACTORS

Investing in the notes involves risks. We believe the following risks and uncertainties may adversely affect the market value of the notes or our ability to fulfill our obligations under the notes. You should carefully consider the risks described below and the other information contained in these Listing Particulars before making an investment decision. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties not currently known to us or that we currently do not believe are material may also adversely affect us.

Risks Related to The Bahamas

A sharp and sustained downturn in either the tourism or the financial services industries could significantly affect the stability of the Bahamian economy as a whole.

The Bahamian economy is highly dependent upon the tourism and financial services industries. This lack of economic diversity exposes the Bahamian economy to significant risk of instability should either sector seriously decline. Although the total number of visitors to The Bahamas has been increasing since 2009, there can be no assurance that the recent positive trend in tourism will continue. The Bahamian tourism industry is also dependent on the continued perception of The Bahamas as an attractive and safe vacation destination. Any change in this perception, including as a result of any reduction in the capital investment in tourism infrastructure or any increase in crime, could have a negative effect on The Bahamas' tourism industry.

Furthermore, the tourism industry relies on a combination of commercial airline services and cruise lines for passenger connections and transport and price increases or services reductions could have a material adverse effect on this industry. Increases in the price of airfare would increase the overall cost to tourists of visiting The Bahamas and may reduce the volume of tourists or the frequency with which they visit. Changes in commercial airline services or cruise line services as a result of strikes, terrorism or terrorist threats, weather or other events, or the lack of availability due to schedule changes or a high level of bookings, could adversely affect the profitability of the tourism industry in The Bahamas.

Additionally, the level of offshore banking business in The Bahamas has declined marginally in recent years. The Bahamas has traditionally been an attractive location for offshore financial services businesses because of its favorable tax regime and legislative environment. The potential loss of such favorable tax treatment or economic stability, due to, among other things, changes in the regulatory and supervisory regimes, could have a negative effect on The Bahamas' position as an international financial services center.

Extreme weather conditions could adversely affect The Bahamas and the financial condition of the Government.

The Bahamas is subject to extreme weather conditions, such as hurricanes and tropical storms, which have the potential to cause extensive physical and economic damage. An extreme weather event could, among other things, limit access to, damage or destroy one or more of the Government's or the country's properties or parts of our infrastructure, including roads and bridges. An extreme weather event may also result in power shortages, telecommunications failures, floods and fires and may cause labor, fuel and other resource shortages that would disrupt the local economy. Such a disaster could significantly increase our expenditures and reduce our revenues, particularly if the Bahamian financial services and tourism industries are affected.

The Bahamas has sustained substantial damage from hurricanes and tropical storms in the past. In 2005, Hurricane Wilma caused significant damage on Grand Bahama Island and some of the Family Islands; however, prior to Hurricane Wilma, the last major hurricane to cause significant damage to The Bahamas occurred in 1929. This hurricane caused particularly devastating effects to New Providence. The landfall of another major hurricane on New Providence could have a material adverse effect on the economy and financial condition of The Bahamas. In addition, threats of hurricanes in the general vicinity of the country during the hurricane season could have an adverse effect on the tourism industry.

Difficult conditions in the Bahamian economy, as well as in the global economy, may adversely affect our revenues and cause our debt levels to continue to rise.

The Bahamian economy has been modestly recovering from the global economic downturn and, in particular, from the recent economic downturn in the United States. For example, The Bahamas' nominal GDP decreased in 2008 and 2009, but has been steadily increasing in each of the three fiscal years ended December 31, 2010, 2011 and 2012. Despite the steady increase, the GDP has yet to reach 2008 levels. These economic difficulties are due, in part, to challenging global economic conditions, since, as a small, open and service-oriented economy, the Bahamian economy is significantly influenced by global economic trends. The recent global economic and financial crisis has led to an increasing Bahamian deficit as the Government continued to attempt to maintain the same quality of public services despite declining revenues. Historically, The Bahamas' current account deficit has largely been offset by a capital account surplus that has resulted from the inflow of private capital from foreign investors. If the inflow of private capital is materially reduced in the future, a corresponding reduction in the current account deficit would be necessary to avoid a deterioration in the balance of payments. However, if spending on imports of goods and services, such as those utilized by the Government sector, is not reduced then the improvement in the current account position may not occur, and this would lead to a deterioration in the country's balance of payment position. Furthermore, while the U.S. economy, to which the Bahamian tourism industry is heavily linked, has started to show signs of recovery, if such recovery does not take hold, or if the recovery of the Bahamian economy is substantially lagging behind such recovery, we may be required to incur higher levels of indebtedness. If economic conditions in The Bahamas and/or globally, as well as Government deficit and debt levels, do not improve, this may have a material adverse effect on our financial condition and our ability to service our debt, including the notes.

The fixed foreign exchange regime requires Bahamian monetary policy to focus primarily on maintaining parity with the U.S. dollar, rather than on other matters.

The Bahamian dollar is fixed at parity with the U.S. dollar. This means that the country must maintain adequate levels of external reserves, based on international benchmarks, to support the country's demand for foreign currency for international transactions. As a result, maintaining the fixed exchange rate regime is the focus of monetary policy, as opposed to other countries where the central bank's mandate is, for example, price stability. In addition, the persistent current account deficits have historically been financed by capital account inflows, which include significant levels of foreign direct investment and one-off transactions.

The Bahamas is dependent on foreign oil supplies and may be adversely affected by increases in fuel prices and disruptions in the supply of fuel.

The Bahamas depends on imported fuels to satisfy nearly all of its domestic energy consumption. The tourism sector of the economy consumes a large portion of the total imported fuel products and is dependent on them. Weather-related events, natural disasters, political disruptions or wars involving oil-producing countries, transportation, taxes or marketing, environmental concerns and other unpredictable events may result in crude oil and fuel supply shortages and/or price increases in the future. Any disruption in oil supply or significant increase in international oil prices may have a material adverse effect on the Bahamian economy.

Risks Related to the Notes

We are a foreign sovereign government, and you may not be able to enforce civil liability provisions of the federal or state securities laws of the United States or provisions of the Fiscal Agency Agreement.

The Bahamas is a foreign sovereign government. In order to enforce rights under the notes and the Fiscal Agency Agreement against the Government, holders of notes or the Fiscal Agent under the Fiscal Agency Agreement may need to obtain a judgment against the Government in a court of competent jurisdiction in the Commonwealth of The Bahamas, which may prove costly and difficult. Foreign sovereign governments and agencies and instrumentalities thereof are generally immune from being sued in U.S. courts and from the enforcement of judgments of those courts under U.S. law, but may waive this immunity or may be subject to limited exceptions to this immunity, as set forth in the U.S. Foreign Sovereign Immunities Act of 1976, or the "Immunities Act." The Government has waived sovereign immunity, subject to certain conditions pursuant to the Fiscal Agency Agreement, in any action arising out of or relating to the Fiscal Agency Agreement or the transactions contemplated

hereby to the fullest extent permitted by applicable law, except for immunity from execution and attachment as set forth in Section 19(4) of the Crown Proceedings Act. However, the Government, among other rights, reserves the right to plead sovereign immunity under the Immunities Act with respect to actions brought against it under U.S. federal securities laws or any state securities laws. In the absence of a waiver of immunity by the Government with respect to such actions, it would not be possible to obtain a U.S. judgment in such action unless a court were to determine that the Government is not entitled to sovereign immunity under the Immunities Act with respect to such action. Moreover, it may not be possible to enforce a judgment obtained under the Immunities Act against the Government's property located in the United States except under the limited circumstances specified in the Immunities Act. Consequently it may be difficult for you to obtain or enforce judgments of U.S. courts against us. See "Enforcement of Civil Liabilities."

The notes are subject to transfer restrictions.

The notes have not been registered under the Securities Act or the securities laws of any other jurisdiction. The notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws. These exemptions include offers and sales that occur outside the United States in compliance with Regulation S under the Securities Act and in accordance with any applicable securities laws of any other jurisdiction and sales to qualified institutional buyers as defined under Rule 144A. For a discussion of restrictions on resale and transfer, see "Notice to Investors."

The notes contain provisions that permit The Bahamas to amend the payment terms without the consent of all holders.

The notes contain provisions regarding acceleration and voting on amendments, modifications and waivers, which are commonly referred to as "collective action clauses." Under these provisions, certain key terms of the notes may be amended, including the maturity date, interest rate and other payment terms, with the consent of the holders of 75% of the aggregate principal amount of the outstanding notes. See "Description of the Notes."

The Fiscal Agency Agreement does not prevent the Government from incurring additional debt or, subject to certain limitations, secured debt.

The Fiscal Agency Agreement governing the notes does not prohibit the Government from incurring additional debt and allows, subject to certain limitations, the incurrence of secured debt. In addition, the Fiscal Agency Agreement does not impose any restrictions or limitations on any of the entities owned or controlled by the Government. As a result, if the Government, or its owned or controlled entities, incur more debt than they can repay, note holders may not receive full payment on their notes. In addition, if payment of any secured debt is accelerated, secured lenders will have priority over claims for payment on the notes to the extent of the value of the assets that constitute their collateral.

Developments in other markets may adversely affect the market price of the notes.

The market price of the notes may be adversely affected by developments in the international financial markets and world economic conditions. The market for the notes is, to varying degrees, influenced by economic and market conditions in the United States and Caribbean countries, in addition to other countries. Although economic conditions are different in each country, investors' reactions to developments in one country may affect the securities markets and the securities of issuers from other countries or territories, including The Bahamas. We cannot predict the effect of developments in other securities markets on the market value of the notes.

An active trading market may not develop for the notes.

The notes were a new issue of securities for which there was no established public market. We do not intend to have the notes listed on a U.S. national securities exchange or to arrange for quotation on any automated dealer quotation systems. Although application has been made to list the notes on the official list of the Luxembourg Stock Exchange for trading on the Euro MTF Market, there is no existing market for the notes, and we can offer no assurance as to the liquidity of any market that may develop for the notes, your ability to sell your notes or the prices at which you may be able to sell your notes. The initial purchasers advised us that they may make a market in the

notes. However, the initial purchasers were not obligated to do so and may discontinue any market making activities with respect to the notes at any time without notice. The liquidity of any market for the notes will depend on a number of factors, including:

- the number of holders of the notes;
- the market for similar securities;
- the interest of securities dealers in making a market in the notes; and
- prevailing interest rates.

We cannot assure you as to the development or liquidity of any trading market for the notes.

USE OF PROCEEDS

The Government used the net proceeds of approximately U.S.\$298.1 million from the sale of the notes to finance general development in The Bahamas in the 2013/2014 fiscal year and to reduce its outstanding indebtedness under its U.S.\$50 million Bridge Loan with RBC Royal Bank (Bahamas) Limited (the proceeds of which were utilized by the Government for such general development), which is an affiliate of one of the initial purchasers for this offering. See “Plan of Distribution.” The Bridge Loan bears interest at a rate per annum equal to LIBOR plus 3% and is subject to customary covenants and obligations. The stated maturity date of the Bridge Loan is July 1, 2014.

THE COMMONWEALTH OF THE BAHAMAS

General

The Commonwealth of The Bahamas is an archipelago of approximately 700 islands and cays, spreading over nearly 100,000 square miles of the Atlantic Ocean. From its westernmost island, which lies approximately 50 miles east of Florida in the United States, The Bahamas stretches 750 miles in a southeasterly direction to within 50 miles of Haiti and Cuba. There are a total of 29 major islands, 661 cays and approximately 2,400 rocks, which together aggregate 5,382 square miles. The two main islands are New Providence (on which the capital of the country, Nassau, is located and which has an area of approximately 80 square miles) and Grand Bahama (which has an area of approximately 530 square miles). The geography of The Bahamas is relatively low and flat, with rock formations creating low ridges beyond which lie many lagoons.

The 2010 Census Report recorded the population of The Bahamas at 351,461 and estimated the average annual population growth over the decade from 2000 to 2010 as approximately 1.6%. The most heavily populated islands in The Bahamas are New Providence, with a population of 246,329, or 70.0% of the population of the country, and Grand Bahama, with a population of 51,368, or 14.6% of the population, in each case, according to the 2010 Census Report. The other islands, referred to as the Family Islands, are more sparsely populated. Based on the 2010 Census, approximately 93.6% of the Bahamian population is under the age of 65 and approximately 26.8% of the population is under the age of 15. The ethnic composition of the population in the country is predominantly of African descent, with a substantial minority consisting of immigrants from the United Kingdom, other countries in Europe and North America. English is the official language of The Bahamas.

The Bahamas has a tropical climate with a relatively even temperature throughout the year, which generally varies between 75 and 89 degrees Fahrenheit. The islands are kept warm in the winter months by the Gulf Stream, while the southerly trade winds ensure a comfortable temperature during the summer months. The hurricane season generally lasts from June to November. Prior to Hurricane Wilma in 2005, which caused significant damage on Grand Bahama Island and some of the Family Islands, the last major hurricane to cause significant damage to The Bahamas occurred in 1929, with particularly devastating effects to New Providence. The landfall of another major hurricane on New Providence could have a material adverse effect on the economy and financial condition of The Bahamas. In addition, threats of hurricanes in the general vicinity of the country during the hurricane season have had and could have an adverse effect on the economy. To protect against financial losses resulting from hurricanes, the Government is a participant in the Caribbean Catastrophe Risk Insurance Facility, which provides member governments in the Caribbean with short term liquidity as insurance against government loss of revenue caused by natural disasters. The facility is designed to limit the financial impact of catastrophic hurricanes and earthquakes on governments in this region.

Government, Political System and Constitution

The Bahamas, which was formerly a British colonial territory, became an independent self-governing nation within the British Commonwealth on July 10, 1973. The Bahamas has enjoyed political stability since independence.

The Bahamas recognizes the British monarch as its formal head of state. An appointed Governor General serves as the British monarch's representative in The Bahamas. The Governor General is appointed by Her Majesty, the Queen, based on the recommendation of the Prime Minister of The Bahamas and generally acts in accordance with the advice of the Cabinet.

Politically, Bahamians have had considerable control over their affairs since long before independence, beginning with the first government assembly in 1729. In May 1963, a conference was held in London to consider a new constitution for The Bahamas at which it was agreed that the colony should have full internal self-government, with the Governor General retaining reserved powers only for foreign affairs, defense and internal security. The new constitution came into force on January 7, 1964, and constitutional advances in 1969 brought the country to the verge of complete self-government.

The political system in The Bahamas is based on the British Westminster model. Parliament consists of the House of Assembly and the Senate. The House of Assembly currently is comprised of 38 members who are elected by universal adult suffrage at least every five years. The Governor General appoints, as Prime Minister, the member of the House of Assembly who is the leader of the party that commands the support of the majority of the members of the House of Assembly. The Senate is comprised of 16 members who are appointed by the Governor General as follows: nine on the advice of the Prime Minister; four on the advice of the Leader of the Opposition; and three on the advice of the Prime Minister after consultation with the Leader of the Opposition. The term of Parliament is typically a five-year period. However, the Governor General, acting on the advice of the Prime Minister, may dissolve the proceedings of Parliament at any time within this five-year period. Upon the dissolution of Parliament, all members of the House of Assembly and Senate must vacate their seats and general elections ensue.

Following the most recent general election held on May 7, 2013, the House of Assembly is now comprised of 29 members from the Progressive Liberal Party, or the "PLP," and nine members from the Free National Movement, or the "FNM." The Rt. Honorable Perry G. Christie, who is leader of the PLP, is the Prime Minister. The Leader of the Opposition is Dr. Hubert Minnis M.P. The FNM and the PLP are generally considered to be centrist political parties in terms of political philosophy and policies.

The executive business of the country is conducted by a Cabinet currently consisting of the Prime Minister and 20 other ministers. The ministers are appointed by the Governor General on the advice of the leader of the Government, who generally is also the Prime Minister.

Judicial power is vested in the Judicial Committee of the Privy Council (based in the United Kingdom), The Bahamas Court of Appeal, the Supreme Court and the Magistrates' Courts. Appeals in almost all matters lie from the Supreme Court to The Bahamas Court of Appeal, with further appeal in certain instances to the Judicial Committee of Her Majesty's Privy Council. The Governor General appoints the Chief Justice of the Supreme Court on the advice of the Prime Minister after consultation with the Leader of the Opposition. The Governor General appoints the other justices with the advice of the Judicial and Legal Service Commission. The Judicial Committee of Her Majesty's Privy Council serves as the highest appellate court. English common law is the basis of the Bahamian legal system.

Bahamas Military

The Royal Bahamas Defence Force, or the "Defence Force," is the coast guard of The Bahamas, which comprises the entirety of armed forces in The Bahamas, as the country does not have an army or an air force. Under The Defence Act, the Defence Force has been mandated to defend The Bahamas, protect its territorial integrity, patrol its waters, provide assistance in times of disaster, maintain order in conjunction with the law enforcement agencies of The Bahamas and carry out any such duties as determined by the country's National Security Council. The Defence Force is also a member of the Caribbean Community's Regional Security Task Force, or "CARICOM," an international agreement for the defence and security of the eastern Caribbean region.

Education System

The education system in The Bahamas is comparable to that of many Western countries. Approximately 24% of the country's annual budget is allocated to education, which is considered a top priority of the Government. Education in The Bahamas is compulsory from age five through sixteen, with approximately 64,000 students attending school at the primary and secondary levels. The country boasts an adult literacy rate that is estimated to exceed 95%.

The Bahamas education system classifies schools into three major categories: (1) primary, for children ages five to eleven; (2) secondary, for ages eleven to sixteen; and (3) schools for all ages in areas where more than one school is not justified by the corresponding population density. In general, schools in the Family Islands are for students of all ages because of long distances to residences; in New Providence and Grand Bahama, students are most often separated according to their age group.

The Bahamas has both public and private schools. The Ministry of Education operates 158 public schools, while private schools account for 52 of the country's schools. The Government has put substantial effort into developing its education system, making education available to all Bahamians at no cost, regardless of their financial means.

The Bahamas education system is based on the British model. In primary school grades, students advance depending on their exam performance at the end of each academic year. In secondary school grades, students must take their first major external exam, the National Junior Certificate Examination. In order to graduate, they must pass the Bahamas General Certificate of Secondary Education.

The country's education system also offers Bahamians the opportunity to pursue post-secondary studies. Numerous schools offer vocational training for adults, such as a nursing program at the Princess Margaret Hospital, programs offering bachelor degrees in hotel management and tourism at the University of The West Indies Centre for Hotel and Tourism Management in Nassau and a wide range of programs offered by the College of The Bahamas.

Several non-Bahamian colleges offer higher education programs in The Bahamas. Some American universities, such as the University of Miami and Nova Southeastern University, hold classes in various degree programs on weekends and in the evenings in several campuses in Nassau.

Social Welfare System

In 1974, the Government introduced the country's first national social insurance program, which provided benefits to qualified contributors for retirement, disability, illness, maternity, funeral expenses, industrial benefits and survivor's assistance. Noncontributory assistance was available for pensions to seniors, survivor's benefits and disability. Most of these benefits were paid out for noncontributory old-age pensions. The Government also administers a number of social welfare programs under its Ministry of Social Services and Community Development, which has oversight over social services, social welfare, pensions to seniors, care for the indigent and the elderly, child protection and rehabilitative services, among others.

Membership in International Organizations

The Bahamas is a member of various regional and international organizations, including the British Commonwealth of Nations, the United Nations and its agencies, the IMF and the World Bank. The Bahamas also has membership in the Non-Aligned Movement, CARICOM, the Caribbean Development Bank, the Organization of American States, the Inter-American Development Bank, or the "IADB," and the World Customs Organization. The Bahamas is a signatory to the Conotou Agreement, which associates the African, Caribbean and Pacific States with the European Union, and to the Caribbean Basin Initiative with the United States. The Government continues to pursue membership with the World Trade Organization, which has granted The Bahamas observer status. The Bahamas is also signatory to the Economic Partnership Agreement between the Caribbean Forum (CARICOM plus the Dominican Republic) and the European Union.

Bahamas Tax System

The absence of direct taxation has enabled The Bahamas to attract a substantial number of financial enterprises in search of tax efficient jurisdictions. The Bahamas has no income taxes, capital gains taxes or profit taxes, and residents are free from succession, inheritance, gift or estate taxes. The only direct tax is a real property tax, ranging from 0.75% to 1.0% for owner-occupied property and 0.5% to 1.5% on commercial property. Presently, although there is no sales tax, the Government is considering implementing a value-added tax system in 2014. There is a high likelihood of the tax passing because the PLP, which supports the tax, currently holds the majority of the seats in Parliament. See "Government Finance—Tax Reform". There is a stamp tax of 7% on goods imported for business use. The absence of income, corporate and inheritance taxes means that import duties are the main source of government revenue. The Bahamas raises approximately 65% of its revenues from trade tariffs. The general rate of duty charges on imports is 32%, though there are numerous exemptions.

Bahamas Infrastructure

The Bahamas has solid infrastructure in place. The Government has spent tens of millions of dollars on infrastructure improvements since the early 1990s, resulting in modern telecommunications and transportation networks, as well as excellent medical facilities. To facilitate the needs of its high-tech businesses, The Bahamas offers high-speed fiber optic links and broadband Internet (cable and DSL).

The Bahamas boasts 3,500 kilometers of well-developed roads and highways. In 2013, the Government substantially completed the New Providence Road Improvement Project, which has improved the road system and decreased traffic congestion, road deterioration and flooding on New Providence. The island also has 23 seaports, allowing for regular shipping connections to the Americas and Europe. Furthermore, The Bahamas has six major airports that are served by various international airlines that provide direct flights to and from key destinations in Europe, North and South America and the Caribbean, with connections worldwide. Scheduled domestic flights by the national airline, Bahamasair, link the island chain while also providing scheduled service to Florida. Charter services are available to all parts of the archipelago.

The Bahamas is served by several hospitals and clinics. The Princess Margaret hospital on New Providence is the largest and offers specialist facilities. Two smaller private hospitals, Doctors Hospital and Lyford Cay Hospital, also offer specialized medical treatment. Hospital facilities also exist in Freeport. Resident medical practitioners provide health care on the Family Islands.

THE ECONOMY

General

The Bahamian economy is highly dependent upon the tourism and financial services industries. These two sectors of the economy, which include tourism-driven retail sales, real estate, construction and manufacturing, together traditionally account for approximately 55% of total GDP and over 60% of employment. Tourism has accounted for an estimated 40% of GDP over the last five years and has employed, directly or indirectly, over half of the workforce. In 2012, The Bahamas attracted approximately 5.9 million visitors, who spent approximately \$2.4 billion in the country. More than 75% of these visitors were from the United States. Over the past several years, the Government has intensified efforts to improve the competitiveness of the tourism sector, principally by promoting new investment in hotels and other facilities, improving infrastructure, developing and enhancing tourist attractions and expanding marketing efforts.

The financial services sector (which consists exclusively of banking and insurance companies) has also historically accounted for a significant percentage of GDP. The Bahamas has traditionally been an attractive jurisdiction for offshore financial services businesses because of its favorable tax regime and legislative environment. In 2000, a compendium of legislation was enacted to strengthen the regulatory and supervisory regime to bring the financial sector into compliance with international “best practices” standards and to enhance the attractiveness of The Bahamas as an offshore financial services center. The Government sector also plays a significant role in the Bahamian economy.

The following table sets forth summary GDP information for each of the years from 2008 through 2012.

	Years Ended December 31,				
	2008	2009	2010 ^(p)	2011 ^(p)	2012 ^(p)
The Economy:					
Nominal GDP (in millions) ⁽¹⁾	\$8,246.70	\$7,820.40	\$7,888.10	\$7,872.60	\$8,149.00
Increase (decrease) in nominal GDP (%) ⁽²⁾	(0.87)%	(5.17)%	0.87%	(0.20)%	3.51%
Population (in thousands) ⁽¹⁾	338	342	351	355	356
Estimated increase (decrease) in real GDP (%) ⁽²⁾	(2.30)%	(4.20)%	1.00%	1.70%	1.80%

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

(2) Represents Department of Statistics estimates.

Source: Department of Statistics.

For more detailed information on trends in GDP, see “—Gross Domestic Product.”

The Bahamian economy is an open economy and, as a result, reflects fluctuations in trade and investments much more readily than a closed economy. The external sector of the Bahamian economy is largely driven by the international services sector, which consists primarily of tourism and financial services. The Bahamas usually has a current account deficit because it imports significant volumes of goods and services to support the tourism industry. This deficit generally increases when foreign direct investments increase. The current account deficit has, however, been offset by a continuing capital account surplus due to the inflow of capital into the economy, particularly in connection with new investment in tourist facilities.

Over the past three years, the Bahamian economy has been steadily recovering from the global economic downturn and, in particular, from the sharp decline in the U.S. market. Preliminary estimates indicate that real GDP in The Bahamas grew by 1.8% in 2012, compared to growth of 1.7% and 1.0% in 2011 and 2010, respectively. The moderate improvement in economic activity during this period was attributable primarily to growth in the tourism and construction sectors and from increased foreign direct investment, which led to reduced unemployment across most sectors, although consumer spending remained subdued. As Government spending increased and revenues fell

in the period since 2008, the Government implemented measures designed to enhance revenue and constrain expenditure growth. The two main economic goals of the Government in the medium-term are as follows:

- eliminate the Government finance statistics deficit by fiscal year 2015/2016; and
- reduce the debt-to-GDP ratio.

The Government's fiscal 2013/2014 budget focuses on improving public finances, thereby improving Government debt position. To this end, the Government announced that it expects the debt-to-GDP ratio to decrease if the Primary Deficit (a deficit measure that excludes interest payments on and principal amortization of the Government's debt) is eliminated by fiscal 2014/2015, as projected. The fiscal 2013/2014 budget also highlights the Government's proposed fiscal stimulus measures, including the implementation of a substantial reform of the tax system, including the introduction of a value added tax in July 2014 at a proposed rate of 15%, the reform and modernization of the Real Property Tax system and the introduction of new excise stamps for tobacco products as a means of curtailing revenue leakage in that area. The Government's fiscal 2013/2014 budget also proposes more efficient revenue collection and additional fees to bolster revenue.

Gross Domestic Product

The Department of Statistics estimates that, during the height of the recession, real GDP contracted at a pace of 2.3% in 2008 and further contracted by 4.2% in 2009. However, the economy began to improve in 2010. Reflective of this, real GDP grew by 1.0% in 2010, by 1.7% in 2011 and by 1.8% in 2012. In recent years, The Bahamas has maintained relatively stable prices, with an inflation rate averaging less than 3.2% in the past three years.

The following table sets forth nominal GDP and expenditures (and as a percentage of nominal GDP) of The Bahamas for 2008 through 2012.

	Years ended December 31,									
	2008		2009		2010 ⁽¹⁾		2011 ⁽¹⁾		2012 ⁽¹⁾	
	(in millions and as a percentage of nominal GDP)									
The Economy:										
Nominal GDP ⁽¹⁾	\$8,247	100%	\$7,820	100%	\$7,888	100%	\$7,873	100%	\$8,149	100%
Add: Imports of goods and services	\$4,452	54%	\$3,728	48%	\$3,895	49%	\$4,522	57%	\$5,125	63%
Total supply of goods and services	\$12,698	154%	\$11,548	148%	\$11,783	149%	\$12,395	157%	\$13,274	163%
Less: Exports of goods and services	\$(3,797)	(46)%	\$(3,117)	(40)%	\$(3,223)	(41)%	\$(3,431)	(44)%	\$(3,650)	(45)%
Total goods and services available for domestic expenditure	\$8,902	108%	\$8,431	108%	\$8,560	109%	\$8,963	114%	\$9,624	118%

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

Sources: The Central Bank and the Department of Statistics.

Principal Sectors of the Economy

The following table sets forth the Government's estimates of the contributions of the principal sectors of the Bahamian economy to total nominal GDP of The Bahamas for the years ended December 31, 2008 through December 31, 2012.

Years Ended December 31,

	2008	2009	2010^(P)	2011^(P)	2012^(P)
Agriculture and Fisheries					
Agriculture.....	0.9%	1.0%	0.8%	0.8%	0.7%
Fisheries	1.2%	0.9%	1.4%	1.3%	1.2%
Total	2.1%	1.9%	2.2%	2.1%	1.9%
Industry					
Mining	1.0%	1.0%	1.1%	0.8%	0.6%
Manufacturing	3.7%	3.7%	3.8%	3.7%	4.1%
Electricity	1.4%	1.5%	1.5%	1.5%	1.4%
Water	0.6%	0.6%	0.6%	0.6%	0.5%
Total	6.7%	6.7%	7.0%	6.6%	6.7%
Construction.....	7.0%	6.5%	8.4%	8.0%	9.7%
Wholesale and Retail Activity					
Wholesale trade	2.3%	2.9%	2.5%	2.4%	2.2%
Retail trade	9.3%	9.3%	8.8%	8.2%	7.9%
Total	11.6%	12.2%	11.2%	10.6%	10.2%
Hotels and Restaurants					
Hotels	8.8%	8.0%	8.2%	9.0%	9.1%
Restaurants	3.0%	2.9%	2.9%	2.9%	3.0%
Total	11.8%	11.0%	11.1%	11.9%	12.1%
Transportation					
Land transport.....	0.4%	0.4%	0.4%	0.4%	0.4%
Marine transport	3.2%	2.9%	2.8%	3.0%	3.1%
Air transport	0.4%	0.6%	0.3%	0.4%	0.3%
Total	4.0%	3.8%	3.5%	3.9%	3.9%
Storage.....	0.4%	0.5%	0.5%	0.5%	0.5%
Communication.....	4.0%	4.4%	4.0%	4.3%	4.2%
Financial Intermediaries					
Banks.....	9.1%	7.8%	8.5%	9.6%	9.2%
Insurance	3.3%	2.8%	2.8%	2.2%	2.0%
Total	12.5%	10.6%	11.3%	11.8%	11.2%
Real Estate and Renting					
Business Activity					
Real Estate.....	14.8%	16.0%	16.4%	16.6%	16.3%
Other business services.....	3.7%	4.1%	3.9%	3.8%	3.7%
Total	18.5%	20.1%	20.3%	20.4%	19.9%
Public Administration and					
Defense.....	4.9%	5.7%	5.7%	5.5%	5.4%
Education					
Private education	1.7%	1.8%	1.8%	1.9%	1.7%
Public education	2.1%	2.5%	2.3%	2.2%	2.3%
Total	3.8%	4.2%	4.1%	4.1%	3.9%
Health					
Private health.....	1.5%	1.6%	1.4%	1.5%	1.3%
Public health.....	2.1%	2.4%	2.4%	2.3%	2.3%
Total	3.6%	4.0%	3.8%	3.8%	3.6%

The following table sets forth the percentage of employed persons (as a percentage of the total population) by economic sector for 2012.

	<u>As of November 30, 2012</u>
Agriculture, hunting, forestry and fishing	5.0%
Mining, quarrying, electricity, gas and water	3.0%
Manufacturing.....	6.0%
Construction.....	12.0%
Wholesale and retail.....	18.0%
Hotels and restaurants	11.0%
Transport, storage and communication	11.0%
Financing, insurance, real estate and other business services	15.0%
Community, social and personal services	18.0%

The following discussion briefly describes the principal non-governmental sectors of the economy. For a description of the Governmental sector, see “—Government” and “Government Enterprises.”

The Bahamian economy is highly dependent upon the tourism and financial services industries. These two sectors of the economy, which include tourism-driven retail sales, real estate, construction and manufacturing, together traditionally account for approximately 55% of the overall GDP of the country and over 60% of employment. Tourism has represented an estimated 40% of GDP over the last five years and has employed, directly or indirectly, over half of the workforce.

Tourism

Tourism is the major sector in the Bahamian economy, accounting for a significant portion of the country’s GDP and employing much of its workforce, directly or indirectly. The Government estimates that the tourism sector will produce 1,000 new jobs in 2014. With its tropical climate, close proximity to the United States, accessibility and political stability, The Bahamas attracted approximately 5.9 million total visitors (including stopover, cruise and day visitors), who spent approximately \$2.4 billion in the country, in 2012.

Resorts

The Government has maintained efforts to improve the competitiveness of the Bahamian tourism sector, principally by promoting new investment in hotels and other facilities, upgrading the tourism infrastructure and expanding marketing efforts. The Ministry of Tourism was provided with a total budget of approximately \$85.9 million in fiscal year 2012/2013 and \$83.0 million in fiscal year 2013/2014 to develop and promote tourism. These resources are used to facilitate the development of new hotels and attract foreign investment to The Bahamas. As a result of the Government’s efforts, The Bahamas has benefited in recent years from a steady stream of private investment in the tourism sector, including the launch of the Albany Project and the PGA Cat Island Golf Project.

The Albany Project is a luxury resort community being developed on the southwestern end of New Providence by world renowned golfers Tiger Woods and Ernie Els, along with British financier Joe Lewis. The groundbreaking for this 565-acre oceanfront development took place in 2008, and the resort community was opened in 2010. The community features a luxury boutique hotel and a variety of residences that include beach front, beach club and golf course custom homes, equestrian ranchettes and marina apartments.

The PGA Cat Island Golf Project is a collaboration between the PGA of America and Cat Islands Partners Ltd. for the development of the first-ever PGA Village outside of the United States. The official groundbreaking ceremony for this U.S.\$200 million project occurred in Cat Island on April 24, 2009, and the Government expects the resort and golf course will be opened by mid-2014.

In February 2011, the Baha Mar Development Company Ltd. began construction of a \$3.5 billion resort in the Cable Beach area of the Western District of New Providence. The Baha Mar development will include four hotels with over 2,000 rooms, a golf course, a 100,000 square-foot casino, more than 30 shopping, dining and nightlife venues and a 200,000 square-foot convention center. Meliá Hotels International will operate an all-inclusive resort in the development. After delays in construction caused by Hurricane Sandy, the resort development is expected to be completed by the end of 2014.

Resorts World Bimini Casino, a world class casino located on Bimini Island, opened in 2013 as a result of the combined investments of Mr. Gerado Capo, a leading Florida builder and real estate developer, through his company RAV Bahamas Ltd., and the Genting/Resorts World Group, a leading international resort, gaming, cruise line, agriculture and energy conglomerate based in Malaysia. The Government has recently allowed these investors to proceed with another phase of the project on the island of Bimini, which will represent an estimated additional investment of \$150 million.

In addition to large scale developments like Atlantis and the Baha Mar Development, the Government also promotes smaller eco-friendly developments as a means of encouraging investment by Bahamian investors in the tourism sector and to further expand hotel market opportunities within this sector, particularly in the sparsely populated Family Islands.

The following table sets forth hotel occupancy rates for the periods indicated:

	As of and for the year ended December 31,				
	2008	2009	2010	2011	2012
Average daily rate	\$215.53	\$197.57	\$199.02	\$200.82	\$195.91
Occupancy.....	54.1%	49.4%	51.5%	53.7%	56.0%

Travel

Nassau is one of the world's busiest cruise ship ports with approximately 1,945 ship arrivals in 2012, a 5.6% increase over the number of ships visiting in 2011. The Bahamas has six major airports that are served by various international airlines that provide direct flights to and from key destinations in Europe, North and South America and the Caribbean, with connections worldwide. Scheduled domestic flights by the national airline, Bahamasair, link the island chain while also providing scheduled service to Florida. Charter services are available to all parts of the archipelago. The two largest airports are in Nassau, located in New Providence and in Freeport, located in Grand Bahama. The Government has entered into agreements with certain international airlines to increase the number of flights or increase the capacity of the planes flying to The Bahamas, initially by deploying larger aircrafts for regularly scheduled flights, principally from Miami and other U.S. destinations. There are five new cities with nonstop service into Nassau and the Government is working to increase the number of nonstop flights traveling from the United States. The Government expects the new flights and larger planes will contribute to a growth in tourism starting in 2014.

The following table sets forth selected data relating to visitors to The Bahamas for the years 2009 through 2012 and through June of 2013.

	As of and for the years ended December 31,				As of and for the
	2009	2010	2011 ^(p)	2012 ^(p)	six months ended June 30, 2013 ^(p)
	(\$ in millions, visitors in thousands)				
Stopover visitors					
Total visitors.....	1,327	1,370	1,346	1,421	706
Increase (decrease)	(9.3)%	3.2%	(1.8)%	5.6%	(6.2)%
Total expenditures	\$1,812	\$1,861	\$1,930	n.a.	n.a.
Cruise visitors					
Total visitors.....	3,256	3,803	4,161	4,434	1,066
Increase.....	14.0%	16.8%	9.4%	6.6%	2.3%
Total expenditures	\$200	\$299	\$347	n.a.	n.a.
Total visitors ⁽¹⁾	4,645	5,255	5,588	5,940	3,225
Increase.....	5.7%	13.1%	6.3%	6.3%	1.4%
Total expenditures ⁽²⁾	\$2,014	\$2,163	\$2,279	2,311	n.a.
Increase (decrease)	(19.5)%	7.4%	5.4%	n.a.	n.a.

(1) Includes stopover, cruise and day visitors.

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

Sources: Ministry of Tourism and the Central Bank.

The performance of the Bahamian tourism sector is, and will continue to be, dependent largely upon economic and other conditions in the United States and other countries that serve as a source of visitors. The number of sea visitors grew by approximately 6.6% and 9.4% in 2012 and 2011, respectively. The more lucrative stopover traffic increased by an estimated 5.6% in 2012 compared to a decrease of an estimated 1.8% in 2011. Consequently, total arrivals to The Bahamas increased by approximately 6.3% to approximately 5.9 million tourists in 2012 and by 6.3% to approximately 5.6 million tourists in 2011.

Data for the first six months of 2013 indicates that total arrivals increased by 1.4% to 3.2 million tourists compared to an increase of 9.5% during the same period in 2012. Sea passengers rose by 3.8% to 2.5 million tourists during this period in 2013, which helped to offset the 6.2% decrease in air traffic to 0.7 million tourists.

There can be no assurance that future economic and other conditions in the United States and other countries will not have an adverse effect on the tourism sector or that Government and private sector initiatives to improve the competitiveness of the tourism industry of the country will be effective. Any significant decline in the performance of the tourism sector is likely to have a negative effect on the overall financial condition of The Bahamas.

Financial Services

The financial services industry (which consists exclusively of banking and insurance companies) has also historically accounted for a significant percentage of GDP and provided substantial employment to the country.

The Bahamas is a principal choice jurisdiction for conducting financial services, ranging from offshore banking, asset protection trusts and international business companies to estate planning and ship registration. The Government believes The Bahamas continues to be an attractive jurisdiction for financial service businesses because of (i) the absence of corporate and personal income taxes, (ii) geographic proximity to the United States, (iii) skilled professional support, (iv) political, social and economic stability, (v) its strong regulatory framework and (vi) minimal exchange controls for transactions between nonresident parties. The Bahamas' commitment to improving its standing as an established offshore financial center has been bolstered by the recent enactments and the issuance of several guidelines, designed to strengthen The Bahamas' anti-money laundering regime and improve the level of regulatory supervision of financial institutions.

In terms of institutional participation, the level of offshore banking business in The Bahamas has declined marginally, although the quality of the remaining institutions may have improved in the last several years due to new

licensing requirements that require a physical presence and actual operations in The Bahamas. As a result of regulatory standards enacted in December 2000, particularly with regard to the requirement that banks conform to physical presence standards (see “Monetary and Financial System—Financial Sector”), the number of bank and trust companies licensed to operate within or from The Bahamas has been on a downward trend since 2001. For example, the number of banks and trust companies licensed to operate within or from within The Bahamas decreased to 268 in 2012 from 278 in 2011. Of these 268 institutions, 113 were public financial institutions, namely business entities licensed to provide banking and/or trust services to members of the public, consisting of 71 Bahamian incorporated eurocurrency operations, 23 eurocurrency branches of foreign banks and 19 authorized dealers and agents. These institutions carry out a variety of operations ranging from retail banking to portfolio management and trust services. The remaining 155 institutions are restricted, non-active or nominee licensees. As of December 31, 2012, the total asset base of offshore banking and trust institutions was estimated to be approximately \$371.0 billion. Government revenues derived from license fees increased by 14.9% in fiscal year 2010/2011 and by 2.7% in fiscal year 2011/2012. Total employment in the sector decreased by an estimated 0.5% between 2011 and 2012.

Outside of the banking sector, statistics compiled by The Bahamas’ Securities Commission indicate a modest decline in the number of active mutual funds under management, from nearly 713 in 2011 to 652 in 2012. The value of assets under management is estimated to have increased by approximately 29.3% to approximately \$112.2 billion in 2012. In the insurance sector, the number of registered insurance companies is estimated to have increased by four in 2012 to a total of 131.

Construction and Manufacturing

The construction sector accounted for an estimated 9.7% of GDP in 2012 and employed an estimated 9.0% of the workforce in 2011. The following table sets forth construction activity in The Bahamas for calendar years 2008 through 2011.

	Year Ended December 31,			
	2008	2009	2010 ^(P)	2011 ^(P)
Building Permits:				
Number	3,184	2,416	1,996	1,966
Value of construction (in millions).....	\$807	\$710	\$575	\$1,995
Building Starts:				
Number	1,148	806	542	578
Value of construction (in millions).....	\$400	\$361	\$154	\$131
Building Completions:				
Number	1,729	1,346	1,139	845
Value of construction (in millions).....	\$427	\$297	\$338	\$483

Sources: Department of Statistics, Bulletin of Construction Statistics and unpublished data.

Note: Includes data for New Providence and Grand Bahama only.

The construction sector has benefited in recent years from the public investment in infrastructure programs as well as private investment in resort and residential properties. For example, the \$3.5 billion Baha Mar development on New Providence has already passed the half-way mark to completion, and investors in Resorts World Bimini plan to undertake another phase of its resort development, amounting to \$150 million of additional investment into Bimini. In the coming periods, the Government expects construction sector output to be driven by domestic demand and other foreign direct investment developments, especially on the Family Islands.

The manufacturing sector accounted for an estimated 4.1% of GDP in 2012 and employed an estimated 3.0% of the workforce in 2011. The manufacturing industry is comprised of the production of goods for the local market and for export. The manufacturers that produce goods for the local market are primarily small, locally-owned industries, including, among others: (i) mattress and pillow manufacturing, (ii) paper converting, (iii) ice, soft drink, perfume, clothing and crystal production and (iv) printing and publishing. Those manufacturers producing goods for export are primarily foreign-owned manufacturers, such as, for example, a salt mining facility (owned by Morton International, Inc.).

Government

The Government plays a significant role in the Bahamian economy, both with respect to its contribution to GDP and employment. The Government participates in the communications, transportation, utilities, hotel and banking industries through its stakes in an estimated 24 significant public corporations and statutory bodies. The Government is continuing to pursue a program of reforms to public enterprises, which included, in 2011, the sale of 51% of its shares in The Bahamas Telecommunications Company Limited, or “BTC,” to CWC Bahamas Holdings Limited, a 100% owned subsidiary of FTSE-listed Cable & Wireless Communications plc, or “CWC.” More recently, in August 2013, the Government announced its intention to reform the energy sector by separating energy generation and distribution. See “Government Enterprises—Privatization.”

Other

In 2012, the remaining sectors of the Bahamian economy consisted of agriculture and fisheries, non-tourism-related transportation and communication services and other commercial, personal and social services.

Economic Policies and Strategy

The Government’s overall strategy is to promote the long-term economic development of The Bahamas by pursuing sound macroeconomic and fiscal policies designed to enhance the competitiveness of the Bahamian economy and facilitate private sector investment and consumption. In addition to the Government’s short-term strategies indicated above, over the long-term, the key initiatives of the current administration in implementing this strategy include:

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

The Government believes that the economic stability created by sound macroeconomic and fiscal policies will lead to increased investments in The Bahamas that will generate employment opportunities and additional revenue sources for The Bahamas. In connection with its commitment to adhering to such policies, the Government is committed to maintaining its current investment grade sovereign credit ratings from both Moody’s and Standard & Poor’s. As such, the Government is dedicated to reducing the growth rate of its debt, thereby over time, as economic conditions improve, decreasing the Commonwealth’s debt-to-GDP ratio. As part of this effort, the Commonwealth has been reviewing the amount of concessions (such as tax waivers) made available by the Government and, where appropriate, has begun phasing out previously granted concessions. In doing so, the Government seeks to enhance its ability to service its outstanding debt.

The Government has a history of successfully using tax and other incentives to promote growth and does not propose to change this strategy at this time. Over the medium term, the Government seeks to ensure that incentives from large scale investments are not granted disproportionately. To achieve this goal, the Government is

committed to reviewing all of its incentive legislation. This review would allow the Government to introduce incentives tailored to the needs of citizens and investors.

Employment and Labor

The following table sets forth the annual average rate of unemployment in The Bahamas for the years ended December 31, 2008 through 2012 and through May 2013.

	Years Ended December 31,					As of May 31, 2013
	2008	2009	2010	2011	2012	
Average unemployment rate.....	8.7%	14.2%	n/a*	15.9%	14.0%	16.2%

Source: Department of Statistics.

*Census year

Given the ongoing, modest recovery in the global economy, which has provided some positive impetus for the domestic economy in recent years, the Government expects that the unemployment rate will decline marginally from the 2012 level and will continue to decrease in the near-to-medium term. The unemployment rate increased from 15.9% in 2011, to 14.0% in 2012 and to 16.2% through the first eleven months of 2013 due principally to discouraged workers re-entering the workforce. The Government is providing limited assistance to the unemployed through the National Insurance Workers Compensation Program. The program, which began in April 2009, provides temporary financial assistance to eligible workers who become unemployed, are unable to find suitable employment and are capable, available and willing to work. However, the Government has replaced the National Training and Retraining Programme for recently laid off workers with a National Training Agency, whose mandate is to equip Bahamians with the necessary practical competencies and skills to meet the current and future demands of the workplace.

The mean household income in The Bahamas for 2011 and 2012 was \$38,512 and \$37,192, respectively.

Inflation

The inflation rate in The Bahamas tends to parallel movements in inflation rates in the United States, reflecting the openness of the Bahamian economy and the fixed exchange rate. The Bahamas has, in recent years, experienced relatively stable inflation rates. During 2012, domestic inflation decreased by 1.2% to 2.0% due to slower price gains in transportation and lower average prices for household items such as equipment, communication and recreation and culture.

Litigation

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

MONETARY AND FINANCIAL SYSTEM

Central Bank

The Central Bank of The Bahamas, or the “Central Bank,” was established under The Central Bank of The Bahamas Act in 1974, which was superseded in 2000 by an Act with the same name. The main function of the Central Bank is to promote and maintain monetary stability and credit and balance of payments conditions conducive to the orderly development of the economy, particularly the fixed parity between the Bahamian and U.S. dollars that has existed since 1973. The Central Bank also assumes a key role in overseeing and promoting the soundness and integrity of the banking system.

The Central Bank has at its disposal traditional instruments of monetary policy, including open market operations, discount rate adjustments, variable reserve ratios, selective credit controls and “moral suasion.” Through its various departments, the Central Bank acts as lender of last resort to banks, arranges the issue and redemption of Government securities, provides clearing facilities to banks, administers exchange controls, acts as advisor and banker to the Government and other public corporations, manages the country’s external reserves and governs the licensing and supervision of banks in The Bahamas.

Financial Sector

As of December 31, 2012, the financial system of The Bahamas consisted of 268 bank and trust companies that were licensed to operate within or from within the country, of which 113 were public financial institutions, business entities that are licensed to provide banking and/or trust services to members of the public, and 155 were restricted, non-active or nominee licensees. As of June 30, 2013, the number of banks and trust companies remained at 268. Banking activities dominate the financial services sector in The Bahamas.

Of the 268 banks and trust companies licensed in The Bahamas as of December 31, 2012, 20 are permitted to conduct operations in the domestic market. These are comprised of eight commercial banks that are authorized to deal in foreign currency, one savings and loan institution and 10 trust companies for which domestic activities are limited. As of December 31, 2012, total commercial bank domestic assets were approximately \$9.7 billion. The operations of Bahamian domestic banks include a large offshore component, with commercial bank foreign assets totaling approximately \$90.2 billion. The Government has guaranteed certain indebtedness of The Bahamas Development Bank. The Government otherwise has not explicitly or implicitly guaranteed financial assistance to any banks operating in The Bahamas, including any banks conducting offshore banking activities.

Since the mid-1960s when capital began flowing into The Bahamas as a result of its favorable tax regime, The Bahamas has evolved into a choice international center for financial services, which traditionally accounts for a significant percentage of the country’s GDP. During the late 1980s and early 1990s, the Government enacted additional legislative and regulatory initiatives aimed at enhancing the financial services sector and strengthening the regulatory environment.

Over the last decade, The Bahamas has worked closely with the Organization for Economic Co-operation and Development, or “OECD,” to adopt uniform standards of transparency and exchange of information between countries, especially countries offering or providing financial services. To date, The Bahamas has adopted a number of the OECD’s international standards of tax transparency and exchange of information in the financial services sector. The uniform transparency standards proposed by the OECD, and subsequently adopted by the G-20 in 2004 and the UN Committee of Experts on International Cooperation in Tax Matters in 2008, require the exchange of certain information on request in all tax matters for the administration and enforcement of domestic tax law. The OECD uniform standards also provide for extensive safeguards to protect the confidentiality of the information exchanged.

The global economic downturn of 2008 and 2009 resulted in a renewed focus by the international community on the OECD uniform standards. In March 2009, the OECD issued a progress report on various jurisdictions that were implementing the OECD uniform standards. In that report, The Bahamas was listed as one of the jurisdictions that has committed to the OECD tax transparency and information exchange standards. Entry into tax information exchange agreements, or “TIEAs,” that embody the OECD standards with an appropriate number of

countries is an important element of OECD assessment of full implementation. The Bahamas signed a TIEA with the United States on January 25, 2002. Subsequent to the issuing of the report, The Bahamas signed a total of 29 TIEAs by December 31, 2012.

In July 2012, The Bahamas undertook a Financial Sector Assessment Program, or “FSAP.” A team from the IMF evaluated the country’s compliance with the various international standards in the banking, securities and insurance sectors, its resilience to external shocks and the effectiveness of its crisis management and financial safety net frameworks. The results of the FSAP were positive, as the assessors noted in their final report that the financial system faced no threat of financial instability in the short-run, and commended the authorities for the progress they had made in improving the regulatory and supervisory framework, following the 2004 Offshore Financial Sector assessment. The IMF also highlighted the fact that the onshore banking system is robust and well capitalized and that there are no risks from the much larger offshore banking sector, due to the strict firewalls which exist between the two centres.

As part of its efforts to combat tax evasion and in keeping with transparency and exchange of information principles, The Bahamas is currently in the process of negotiating an agreement with the United States in order to comply with the Foreign Account Tax Compliance Act. As part of the agreement, Bahamian financial institutions will agree to exchange information with U.S. authorities.

The following table sets forth financial soundness indicators for domestic commercial banks and other local financial institutions in The Bahamas for 2008 through 2012.

	Years ended December 31,				
	2008	2009	2010	2011	2012
	(%)				
Average Net Worth to Risk Weighted Assets (Capital/RWA)	23.5	26.1	25.5	25.5	26.6
Non-performing loans net of provisions to capital.....	12.8	20.2	23.6	24.1	20.1
Non-performing loans to total gross loans	6.0	9.3	12.2	13.0	13.6
Return on assets.....	2.5	2.3	2.7	2.5	1.7
Return on equity	14.5	11.8	15.1	13.4	6.3
Interest margin to gross income	55.9	59.3	61.0	64.2	95.9
Non-interest expenses to gross income.....	32.7	35.5	36.2	38.2	88.5
Liquid assets to total assets (liquid asset ratio)	12.8	15.9	18.7	19.7	20.2
Liquid assets to short-term liabilities	20.7	26.4	31.7	30.1	31.2
Foreign currency deposits, percent of total deposits	3.47	3.98	3.71	3.35	3.5
Deposits maturing within 3 months, percent of total deposits	18.99	20.64	20.15	24.38	21.6
Total Provisions to Total Loans	2.7	3.4	4.3	4.7	5.3
Total Provisions to Non-performing Loans.....	46.0	37.1	36.6	36.8	39.1
Total Non-performing Loans to Total Loans	6.1	9.3	11.9	12.7	13.6
Memo Items (Dollars in Millions)					
Total domestic assets	\$9,147.30	\$8,970.80	\$9,382.59	\$9,488.99	\$9,602.11
Liquid assets	1,169.30	1,423.76	1,755.15	1,865.12	1,938.24
Total deposits	5,842.20	5,960.67	6,102.35	6,225.03	6,207.70
Fixed deposits up to 3 months	1,109.70	1,230.30	1,229.86	1,517.36	1,340.64
Domestic currency deposits.....	5,639.00	5,723.15	5,876.22	6,016.52	5,990.15

For domestic commercial banks and other local financial institutions combined

The Global Forum on Tax Transparency and Exchange of Information for Tax Purposes is an organization of the OECD that is a multi-lateral framework within which work in the area of transparency and exchange of information is carried out by both OECD and non-OECD countries and that was established to address concerns regarding money laundering, tax evasion, tax havens, offshore financial centers, TIEAs and Double Taxation Conventions. In 2013, the organization issued a “Phase 2” report for The Bahamas that examined the exchange of information practices in the country. The Phase 2 report noted that, although The Bahamas started receiving requests

for information relatively recently, the country often responded to requests to provide the information and responded fully to 75% of the requests within 180 days. However, while ownership and accounting information was generally made available, the report noted that the lack of monitoring of ownership and accounting obligations may affect the availability of information for all legal entities. The report concluded that The Bahamas has broad powers to gather relevant information and such powers have been successfully exercised to gather information for exchange of information purposes. The report further noted that the competent tax authority in The Bahamas is well organized with adequate internal processes in place for handling exchange of information requests. This has been confirmed by other members of the forum, acknowledging The Bahamas as an important and reliable exchange of information partner.

Monetary Policy

The Central Bank conducts the monetary policy of The Bahamas. The Central Bank's monetary policy objective is to maintain stable credit and other conditions to support the fixed parity between the Bahamian and U.S. dollars, while simultaneously allowing economic development objectives to be pursued. The stability objective includes maintaining the domestic as well as the external value of the currency, while the development objective requires promoting and supporting a high level of domestic production, employment and growth. The Government is also currently considering a gradual move toward a more flexible and market-oriented framework for liquidity and credit management to help expand the domestic credit market and foster competition in the banking sector, while the Central Bank is seeking over time to introduce indirect instruments of monetary policy.

On June 6, 2011, the Central Bank reduced the discount rate by 75 basis points to 4.50% in an effort to support the recovery in the economy amid signs of a more positive outlook for global growth, improved domestic economic indicators and modest levels of external reserves.

The following table sets forth the monetary and credit aggregates for 2008 through 2012.

	Years Ended December 31,				
	2008	2009	2010	2011	2012
			(in millions)		
Currency in active circulation	\$206	\$208	\$195	\$197	\$217
Demand deposits	\$1,069	\$1,076	\$1,141	\$1,238	\$1,358
Money supply (M1)	\$1,275	\$1,284	\$1,335	\$1,435	\$1,575
Savings deposits	\$1,020	\$995	\$1,016	1,064	\$1,069
Fixed deposits	\$3,428	\$3,521	\$3,615	\$3,606	\$3,444
Money supply (M2) ⁽¹⁾	\$5,723	\$5,800	\$5,966	\$6,105	\$6,088
Foreign currency deposits	\$201	\$232	\$225	\$206	\$216
Money supply (M3) ⁽²⁾	\$5,924	\$6,032	\$6,191	\$6,310	\$6,304
Private sector credit	\$6,537	\$6,596	\$6,573	\$6,648	\$6,629
Net credit to Government	\$924	\$1,024	\$1,414	\$1,439	\$1,592
Credit to rest of public sector	\$448	\$420	\$462	\$450	\$464
Total domestic credit	\$7,909	\$8,040	\$8,448	\$8,537	\$8,685
Other net external liabilities ⁽³⁾	\$(704)	\$(682)	\$(706)	\$(604)	\$(602)
Official foreign reserves	\$563	\$816	\$860	\$885	\$810
Bank liquidity	\$165	\$229	\$331	\$371	\$323

(1) Represents the sum of M1, savings deposits and fixed deposits.

(2) Represents the sum of M2 and foreign currency deposits.

(3) Represents the domestic banks' net external position. The liabilities comprise the deposits of nonresidents, foreign share capital and the net balances due to head offices and to other banks abroad by domestic banks. The assets cover the net balances held by domestic banks with their head offices and other banks abroad, holdings of foreign notes and coins, foreign securities, commercial bills and loans and advances made to nonresidents.

Source: The Central Bank.

Money supply decreased marginally by 0.1% in 2012 as compared to growth rates of approximately 1.9%, 2.6% and 1.8% in 2011, 2010 and 2009, respectively, primarily as a result of increased borrowing by the private sector and reduced net foreign currency inflows. In 2012, the decrease in fixed deposits outpaced the marginal growth in savings deposits, while demand deposits grew modestly.

Personal loans have accounted for over 72.5% of overall domestic bank credit over the past five years through December 31, 2012. Other sectors of the economy remained relatively constant over the last five years as a percentage of overall bank credit, with construction representing 6.11%, tourism 1.9%, wholesale and retail trade 2.5% and professional services 1.9% of total domestic bank credit.

Foreign currency loans of domestic banks decreased over the past five years, decreasing from approximately \$761.5 million as of December 31, 2008 to approximately \$683.5 million as of December 31, 2012, representing a 10.2% decline over such period.

Bank Regulation and Supervision

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

The supervisory and regulatory functions of the Central Bank are strongly focused on the licensing approval phase, which involves, among other things, the consideration of whether the applicant is a "fit and proper person," a review of the capitalization of a company to determine if minimum capitalization requirements are met and a review of the internal controls of a company to monitor and detect risk. Once a license is issued, the supervisory process of the Central Bank then involves monitoring and controlling the activities of the banks in accordance with established rules and regulations, and determining viability from the perspective of liquidity, solvency and risk exposure. Offshore banks are exempt from certain measures that the Central Bank imposes on domestic banks relating to reserve requirements, restrictions on the holdings of foreign assets, foreign exchange transactions and other credit measures. The Central Bank employs various tools in exercising supervisory oversight of the licensees, which include disclosures, off-site surveillance, prudential dialogues, external audits, on-site examinations and prudential norms. These tools have been carefully tailored to promote high banking standards and the stability and soundness of the banking system while providing sufficient flexibility to facilitate growth in business.

In 2000, the Government instituted a series of legislative enactments to bolster regulations and reinforce restrictions applicable to money laundering activities and the offshore financial services sector. As a result of Parliament's adoption of the Central Bank of The Bahamas Act and the Banks and Trust Companies Regulation Act, the Central Bank's supervisory role has grown over the past decade. Following the approval of this legislation, the Central Bank launched an on-site examination program, which initially focused on the evaluation of anti-money laundering systems and verification of banks and trust companies' compliance with physical presence requirements. Since August 2001, the on-site examination process has focused on the adequacy of banks and trust companies' general risk management, corporate governance structure, internal controls, safety and soundness and compliance with anti-money laundering policies and procedures. Pursuant to this program, the Central Bank conducted 26 examinations in 2010 and 37 examinations in 2011. The Central Bank's involvement in the FSAP process, the implementation of the risk-based approach and development initiatives within the Examination Unit resulted in the number of examinations declining to 29 in 2012.

In 2012, the implementation of the Risk-based Supervision Framework, or “RBSF,” by the Central Bank, initiated in late 2010, continued to progress. The Central Bank focused on completing the third and fourth rounds of risk assessments by the third quarter of 2012 and migrating from the RBSF project mode to an ongoing supervisory programme comprising full and simplified risk assessments. The transition to an ongoing risk assessment cycle is a key milestone for 2013, as the RBSF is the basis for an effective supervision function in the Bank.

Further, in 2012, the Central Bank measured the financial soundness of banks using its stress testing framework model, inclusive of credit, interest rate and liquidity risks. In the months leading up to the FSAP, the Central Bank worked closely with senior personnel from the commercial banks in ensuring their collation of micro-level data for the FSAP team’s stress testing model. The comparison of the Central Bank’s top-down stress testing model with the bottom-up model used by the commercial banks proved to be useful and insightful, with similar results obtained from the three completed stress tests.

During 2012, the Central Bank issued new guidelines for the management of interest rate risk, which provide high level principles for managing the interest rate risk present in licenses’ business activities. The Central Bank also issued new guidelines for the management of market risk, which highlighted the key elements of the prudential risk measurement and management framework for licenses which are engaged in activities which give rise to risk associated with potential movements in market prices for equity and interest rate investments. Revised guidelines were also issued for large exposures, liquidity risk management and license applications for banking and trust companies.

In addition, in May 2001, the Central Bank issued new minimum physical presence guidelines for banks and trust companies operating in The Bahamas. The guidelines, which became fully binding on July 1, 2004, provide that no banking or trust entity may be licensed in The Bahamas unless strict minimum operating requirements are met, including (a) maintaining the primary records of the licensee and performing other operational and administrative services at its offices in The Bahamas, (b) appointing a local, non-executive director to serve on the licensee’s board of directors and (c) appointing two local senior officials to be responsible for the licensee’s operations in The Bahamas. Banks and trust companies without full physical presence were required to discontinue their operations in The Bahamas by July 1, 2004.

The Central Bank’s supervisory and regulatory regime also has been substantially enhanced by the Corporate Governance Guidelines issued in December 2001, which became effective on December 31, 2003. The guidelines require bank and trust company licensees to implement comprehensive risk management controls and systems and outline the duties and responsibilities of directors of licensees with respect to corporate governance. Compliance with the Corporate Governance Guidelines by banks and trust companies is subject to annual review by the Central Bank.

Exchange Rates and Exchange Controls

The unit of currency in The Bahamas is the Bahamian dollar. The Government has maintained effective parity of the Bahamian dollar with the U.S. dollar since February 1973. The U.S. dollar circulates freely with the Bahamian dollar. The official buying and selling rates for the U.S. dollar are \$1.00 and \$1.0025, respectively, per U.S.\$1.00.

The Central Bank administers exchange controls under the provisions of the Exchange Control Regulations Act. The Central Bank, however, delegates to authorized dealers the authority to approve allocations of foreign exchange for certain payments. As a member of the IMF, The Bahamas has agreed not to impose restrictions on current account transactions, although exchange controls are used to monitor developments in this area.

The Government has pursued a policy of gradual liberalization of exchange controls, instituting several rounds in 1995, 2002 and 2007, designed to progressively liberalize the system. In connection with such control liberalization measures, commercial banks (authorized dealers) were given broader approval authority for a wide range of current account transactions (personal and business), obviating the need for customers to approach the Central Bank. There has also been a relaxation of certain capital account restrictions with the objective of providing enhanced opportunities for residents to participate in and finance investments overseas, while deepening domestic capital markets. Areas subject to exchange control liberalization include revisions in the investment currency market

rate, foreign real estate time-share purchases, employee stock option plans, employee share purchase plans, emigration, funding and investment guidelines for temporary residents and permanent residents with restricted right to work, investment in securities publicly traded on foreign exchanges and listed on The Bahamas International Securities Exchange, such as Bahamian depositary receipts, regional cross border listings, a National Insurance Board overseas investment program, and resident designated entities' investments in private and public sector securities.

Regarding capital account transactions, all foreign currency transfers require Central Bank approval and outflows of resident-owned capital are restricted. The use of official exchange for direct investment abroad is limited in amount and is restricted to investments that are expected to meet certain balance of payments criteria. Investments abroad that do not meet these criteria may be financed by foreign currency borrowings, by purchases of foreign currency at a premium of 12.5% over the official market rate in the investment currency market maintained by the Central Bank, the Investment Currency Market, or by use of retained profits of foreign subsidiary companies. In addition, with respect to any capital gains realized on the investment, the investor, under current bid and offer rates, would be entitled to a premium of 10% on the original capital invested in the foreign holdings. The use of investment currency is prescribed for transactions involving residents purchasing foreign currency-denominated securities from nonresidents and making direct investments outside The Bahamas.

In financing overseas investments by borrowing, residents other than authorized banks must obtain the permission of the Central Bank to borrow foreign currency from nonresidents, while authorized dealers are subject to exchange control guidelines with respect to their lending in foreign currency to residents. Residents must obtain the specific approval of the Central Bank to acquire property outside The Bahamas, and these purchases are normally expected to be made with foreign currency purchased in the Investment Currency Market.

In-bound investment by nonresidents of The Bahamas in certain businesses is restricted, such as wholesale and retail operations, restaurants, nightclubs and domestic newspapers and magazine publications. However, the consent of the Central Bank is required for the issue or transfer of shares in a Bahamian company to a nonresident and for the transfer of control of a Bahamian company to a nonresident. In addition, special procedures apply to investments in real property. As specified under the *International Persons Landholding Act, 1993*, a non-Bahamian, (other than a permanent resident or a non-Bahamian acquiring land or an interest in land under a devise or by inheritance), who purchases or acquires an interest in real property to be used as an owner-occupied property or for the construction of premises to be used as an owner-occupied property, must register such purchase or acquisition with the Government's Investments Board, unless the property being acquired is undeveloped land and the non-Bahamian would by virtue of the acquisition become the holder of two or more contiguous acres of land in The Bahamas, in which case a permit is required. As of December 31, 2013, The Bahamas' external reserves totaled U.S.\$741.6 million. The Bahamas had no reserve holdings in gold as of December 31, 2013.

EXTERNAL SECTOR OF THE ECONOMY

The Bahamian economy is an open economy and, as a result, reflects fluctuations in trade and investments much more readily than a closed economy. The external sector of the Bahamian economy is largely driven by the international services sector, which consists primarily of tourism and financial services. The Bahamas customarily has a current account deficit because it imports significant volumes of goods and services to support its tourism industry. The current account deficit has largely been offset by a capital account surplus due to the inflow of private capital into the economy, particularly in connection with tourism-related projects as well as Government borrowings.

Foreign Trade

The following table sets forth the values by category of The Bahamas' imports and exports for 2008 through 2012.

	Years Ended December 31,				
	2008	2009	2010	2011	2012
	(in millions)				
Imports:					
Food and live animals.....	430	418	427	464	484
Beverages and tobacco	69	69	67	67	84
Crude materials (except fuel).....	76	66	64	55	68
Mineral fuels, lubricants, etc.....	847	557	687	930	875
Animal and vegetable oils	9	9	8	10	11
Chemicals	288	272	327	387	398
Manufactured goods	444	394	377	448	524
Machinery and transport equipment	646	529	494	583	688
Miscellaneous and other items.....	300	280	322	336	382
Other commodities and transportation.....	94	105	91	132	133
Total imports	<u>3,201</u>	<u>2,699</u>	<u>2,863</u>	<u>3,411</u>	<u>3,647</u>
Exports:					
Total domestic exports.....	404	334	304	326	337
Total re-exports ⁽¹⁾	292	251	317	401	491
Total exports.....	<u>696</u>	<u>585</u>	<u>621</u>	<u>272</u>	<u>828</u>

(1) Represents goods that are imported into The Bahamas, held in The Bahamas and then re-exported to various countries.

Source: The Central Bank.

Geographic Distribution of Trade

The largest trading partner of The Bahamas is the United States, which primarily reflects the close proximity of the countries, the effective parity of the U.S. and Bahamian dollars and the generally favorable relationship between the countries. The Bahamas also conducts a substantial amount of trade with Canada, the United Kingdom and other countries comprising the European Union. According to the Government's most recent estimates, the United States received approximately 63.8% of non-oil exports from The Bahamas and accounted for roughly 87.1% of all imports into The Bahamas in 2012. Corresponding numbers for the European Union were 9.6% and 2.8%, respectively, and for other countries (among them, the United Kingdom, Canada, Caribbean countries and others) were 26.6% and 10.1%, respectively. Given its heavy reliance on trade with the United States, The Bahamas' economy is, and will continue to be, dependent upon economic and other conditions in the United States.

The following table sets forth the distribution of imports and non-oil exports (including re-exports) by country/region for the years ended December 31, 2008 through December 31, 2012.

	Years Ended December 31,				
	2008	2009	2010	2011	2012
	(in millions)				
Imports:					
United States.....	2,203	2,024	1,983	2,305	2,414
United Kingdom.....	14	7	13	19	17
Canada.....	11	14	16	16	20
Caribbean Commonwealth	6	4	6	9	19
European Union (excluding United Kingdom).....	23	21	37	19	78
Other countries	97	72	121	113	223
Total	2,354	2,142	2,176	2,481	2,772
Exports:					
United States.....	355	327	316	354	357
United Kingdom.....	9	19	31	32	12
Canada.....	36	25	20	22	26
Caribbean Commonwealth	4	5	11	2	2
European Union (excluding United Kingdom).....	78	74	28	54	54
Other countries	72	43	55	45	109
Total	555	492	460	509	560

Source: The Central Bank.

Balance of Payments

The balance of payments is used to record the value of the transactions carried out between a country's residents and the rest of the world. The balance of payments is comprised of two accounts: (1) the current account, which comprises net exports of goods and services (the difference in value of exports minus imports), net financial and investment income, and net transfers; and (2) the capital account, which is the difference between financial capital inflows and financial capital outflows.

The following table sets forth the balance of payments for the years 2008 through 2012 and for the six months ended June 30, 2013.

	Years Ended December 31,					Six months ended June 30, 2013
	2008	2009	2010	2011	2012	
Current Account:	(in millions, except percentages)					
Goods Trade (net):						
Exports	956	711	702	834	984	458
Imports	(3,199)	(2,535)	(2,591)	(2,966)	(3,386)	(1,645)
Total	<u>(2,243)</u>	<u>(1,824)</u>	<u>(1,889)</u>	<u>(2,132)</u>	<u>(2,402)</u>	<u>(1,187)</u>
Services (net):						
Travel	2,197	1,774	1,936	2,033	2,107	1,128
Transportation	(308)	(268)	(224)	(196)	(265)	(143)
Other	(400)	(351)	(383)	(499)	(614)	(369)
Total	<u>1,489</u>	<u>1,155</u>	<u>1,329</u>	<u>1,338</u>	<u>1,228</u>	<u>617</u>
Income (net):						
Compensation of employees.....	(19)	(12)	(27)	(48)	(45)	(22)
Investment income	(59)	(140)	(208)	(188)	(217)	(107)
Total	<u>(78)</u>	<u>(152)</u>	<u>(235)</u>	<u>(236)</u>	<u>(262)</u>	<u>(129)</u>
Current Transfers (net):						
Government.....	63	87	87	113	121	68
Private	(102)	(73)	(90)	(150)	(110)	(52)
Total	<u>(39)</u>	<u>14</u>	<u>(3)</u>	<u>(37)</u>	<u>11</u>	<u>15</u>
Current account deficit	(872)	(809)	(797)	(1,066)	(1,424)	(684)
Current account surplus (deficit) as a percentage of nominal GDP	(10.6)	(10.3)	(10.1)	(13.5)	(17.5)	n.a.
Capital and Financial Account:						
Capital account (transfers).....	(8)	(7)	(4)	(6)	(7)	(5)
Financial account	1,220	1,122	1,148	992	1,148	270
Direct investment	860	664	872	667	360	184
Portfolio investment	(25)	(17)	(22)	(44)	(37)	(18)
Other investment	385	475	298	370	824	104
Central government long term capital flow (net)	111	320	25	71	239	13
Other public sector capital.....	(4)	184	124	58	172	5
Banks	36	(22)	24	(101)	(2)	(78)
Other	243	(7)	126	343	416	163
Capital account surplus	1,212	1,115	1,144	986	1,140	265
Net errors and omissions ⁽¹⁾	232	53	303	(104)	(209)	(406)
Changes in external reserves decrease (increase).....	(109)	(253)	(45)	(25)	75	13

(1) When all actual balance of payments entries are totaled, the resulting balance will show a net credit or a net debit. That balance is the result of errors and omissions in compilation of statements. Some of the errors and omissions may be related to recommendations for practical approximation to principles. In balance of payments, the standard practice is to show separately an item for net errors and omissions. Labeled by some compilers as a balancing item or statistical discrepancy, that item is intended as an offset to the overstatement or understatement of the recorded components.

Source: The Central Bank.

The Bahamas' external current account deficit largely reflects the trends in tourism receipts and consumer demand for imports. The current account deficit increased in 2012 to approximately \$1,424.3 million from an estimated \$1,065.7 million in 2011 and approximately \$797.7 million in 2010. The goods trade deficit expanded in 2012 to approximately \$2,401.5 million from approximately \$2,132.2 million in 2011 as a result of an increase in imports related to construction of large-scale tourism sector projects. The services account surplus decreased to an estimated \$1,229.1 million in 2012 from approximately \$1,338.6 million in 2011 as a result of an increase in net payments for construction services and, to a lesser extent, an increase in net outflows for transportation and other miscellaneous services by 35.1% and 16.9%, respectively.

The capital and financial account traditionally runs at a surplus, as private sector investment net inflows usually offset capital transfers and public sector net outflows. The amount of such inflows into the economy has grown unevenly, from an estimated \$1,212.2 million in 2008 to \$986.4 million in 2011 and approximately \$1,140.4 million in 2012, due to the interplay of net foreign investment inflows and public sector external borrowings in individual years. In 2012, as compared to 2011, private direct investments fell by approximately \$306.4 million to approximately \$360.2 million. In 2012, public sector net external debt inflows were in excess of \$200.0 million, reflecting the impact of the Government's \$180.0 million external infrastructure loan financing, while domestic banks' net short-term activities normalized to \$2.3 million due to an extraordinary Government foreign currency loan repayment of \$101.4 million in 2011. In contrast, other net "private sector" inflows increased to \$382.4 million.

The following table sets forth the official foreign exchange reserves in each of the calendar years from 2008 through 2012.

	Years Ended December 31,				
	2008	2009	2010	2011	2012
	(in millions of U.S. dollars)				
Balances with banks.....	206	271	175	115	216
Foreign securities.....	347	356	500	585	556
Special drawing rights at IMF.....	1	179	176	175	28
Reserve position at IMF.....	10	10	10	10	10
Total	<u>564</u>	<u>816</u>	<u>861</u>	<u>885</u>	<u>810</u>

Source: The Central Bank.

As of December 31, 2012, external reserves totaled approximately \$810.2 million, representing a reduction of 8.5% as compared to December 31, 2011. This decrease is largely the result of a turnaround in net foreign currency transactions from a net purchase to a net sale, as increased demand resulted in an expansion in the current account deficit, while a net repayment for construction services contributed to the moderation in the capital account surplus. In 2012, foreign reserves decreased by \$74.7 million following an estimated \$24.4 million increase in reserves during 2011. At September 30, 2013, net international reserves totaled approximately U.S.\$669.3 million.

According to the Central Bank, foreign exchange reserves, substantially all of which are in U.S. dollars, averaged 3.3 months of imports of non-oil merchandise over the period from 2008 through 2012.

GOVERNMENT ENTERPRISES

Public Corporations

Traditionally, the Government has played a significant role in the economy through its ownership and management of an estimated 24 significant public corporations and statutory bodies. The public corporations are corporate entities established under special authorizing statutes or are incorporated under ordinary company legislation but are wholly owned or majority-owned by the Government.

In light of the Government's ownership interests in the public corporations, the Government is a guarantor by contract of certain indebtedness of the public corporations, and the incurrence of any debt by the public corporations is subject to Government approval. At December 31, 2012, the total debt of the public corporations was approximately \$1,308.3 million, of which approximately \$589.9 million was contractually guaranteed by the Government. See "Public Sector Debt—Debt of Public Corporations."

Certain of the public corporations have incurred substantial and recurring net losses and have significant negative net worth balances. Bahamasair, The Hotel Corporation of The Bahamas, or "The Hotel Corporation," and The Water & Sewerage Corporation, or "WSC," have, in particular, had poor financial performance over the past several years. The most recent audit reports for the financial statements for these public corporations contain qualifications expressing doubt about their respective ability to continue as going concerns without the continued support of the Government. The Government anticipates that subsequent audit reports will contain similar qualifications.

None of the public corporations has ever defaulted on the payment of principal or interest under any loan agreement and the Government has never been required, as guarantor, to cure any payment defaults. However, the Government provided financial assistance totaling \$44.6 million for fiscal 2012/2013 to certain of the public corporations (Bahamasair, WSC and the Broadcasting Corporation of The Bahamas) to enable them, among other things, to meet their obligations under various loan agreements. See "Government Finance—Revenues and Expenditures." In addition, certain of the public corporations have from time to time failed to meet certain technical covenants contained in various loan agreements, including, depending upon the public corporation involved, financial, information reporting or other covenants. These public corporations have obtained waivers from lenders for past covenant noncompliance problems, as well as prospective short-term monetary assistance from the Government.

The Bahamas Electricity Corporation, or "BEC," was established to provide electricity for consumption on most islands in The Bahamas. As of the fiscal year ended September 30, 2010, BEC had total assets of approximately \$918.0 million, total liabilities of approximately \$677.1 million and total shareholders' equity of approximately \$240.9 million. BEC recorded net income for its fiscal year ended September 30, 2010 of approximately \$0.2 million.

The WSC protects water resources, regulates the extraction, use and supply of water, disposes of sewerage and grants and controls water rights. As of December 31, 2012, WSC had total assets of approximately \$272.1 million, total liabilities of approximately \$100.8 million and total shareholders' equity of approximately \$171.3 million. For the year ended December 31, 2012, WSC recorded a net loss of approximately \$11.2 million.

Bahamasair provides passenger and cargo transportation services in The Bahamas and between The Bahamas and Florida. As of the fiscal year ended June 30, 2012, Bahamasair had total assets of approximately \$33.5 million, total liabilities of approximately \$37.8 million and total shareholders' deficit of approximately \$4.3 million (comprising capital contributions of approximately \$502.1 million and an accumulated deficit of approximately \$515.6 million). For the fiscal year ended June 30, 2012, Bahamasair recorded a net loss of approximately \$26.5 million.

For a description of the debt of the public corporations, see "Public Sector Debt—Debt of Public Corporations."

Certain other public corporations in operation at present in The Bahamas are the Central Bank, The Bahamas Development Bank, The Bahamas Mortgage Corporation, the National Insurance Board, The Hotel Corporation, The Bank of The Bahamas International, the Education Loan Authority and the Airport Authority. These corporations are mainly financial or promotional in nature.

The primary functions of the Central Bank are to promote and maintain monetary stability and credit and balance of payment conditions conducive to the orderly development of the economy and to oversee and promote the soundness and integrity of the banking system. As of December 31, 2012, the Central Bank had total assets of approximately \$1,260.0 million, total liabilities of approximately \$1,124.3 million and capital and reserves of approximately \$135.7 million. For the year ended December 31, 2012, the Central Bank recorded a net loss of approximately \$1.4 million.

The National Insurance Board administers specific benefit programs, including workman's compensation, retirement, maternity, death and short and long-term disability pursuant to The Bahamas' national insurance program established in the National Insurance Act and Regulations. As of December 31, 2012, the National Insurance Board had total assets of approximately \$1.7 billion, total liabilities of approximately \$78.4 million and reserves of approximately \$1.7 billion. For the year ended December 31, 2012, the National Insurance Board recorded total comprehensive income of approximately \$25.1 million.

The Nassau Airport Development Company, or "NAD," which is a subsidiary of the Airport Authority, is responsible for the operation and development of the Sir Lynden Pindling International Airport in Nassau, Bahamas. As of June 30, 2012, NAD had total assets of approximately \$502.3 million, total liabilities of approximately \$476.8 million and total shareholder's equity of approximately \$25.4 million. NAD's net loss for the year ended June 30, 2012 was approximately \$6.2 million.

Privatization

Following a process that lasted several years, the privatization of the Bahamas Telecommunication Company, or "BTC," was completed on April 6, 2011. As a result of this privatization, 51% of the shares previously held by the Government of The Bahamas were sold to CWC, a 100% owned subsidiary of FTSE-listed Cable & Wireless Communications plc, and control of BTC was assumed by CWC and its Caribbean operational entity, LIME. Presently, BTC enjoys exclusivity of the cellular services market. BTC currently provides services to over 334,000 wireless, 132,000 fixed line and 18,500 broadband customers throughout The Bahamas. BTC currently has approximately 190 roaming agreements in place that serve more than 4 million tourists who visit The Bahamas each year. However, liberalization of the cellular market is expected in 2014, as the Government has the right to launch an external process for the grant of a second cellular license.

On August 13, 2013, the Government issued a Request for Proposals, or "RFP," for potential investment and management services relating to the reform of the energy sector of The Bahamas. The RFP was issued in the context of the planned reform of the current energy market structure to provide for more efficient and modernized generation, transmission and distribution of electricity and pursue increased competition in generation and increased use of renewable energy in the future.

At present, BEC, a wholly owned Government entity, is responsible for the generation, transmission and distribution of electricity in The Bahamas outside of Hawksbill Creek Area (where this responsibility lies with the Grand Bahama Power Company), although the Grand Bahama Power Company, through an arrangement with the Government of The Bahamas, provides electricity for the entire island of Grand Bahama. As part of its planned reforms, the Government of The Bahamas would restructure BEC to segregate its generation activities from its transmission and distribution activities through the creation of the following two new legal entities:

- (i) NewCo, which would be wholly owned by BEC and would effectively assume all of BEC's existing non-generation based operations, except for transmission and distribution facilities on some of the smaller Family Islands. NewCo would be responsible for the operation, maintenance, repair and expansion of the electricity transmission and distribution systems (except for certain transmission and distribution systems on some of the Family Islands, which would be operated by

JVCo) and for billing, collection, customer services and other relevant services across The Bahamas; and

- (ii) JVCo, which would be owned in part by BEC and in part by a private investor. JVCo would assume and be responsible for the operation, maintenance, repair, financing and expansion of BEC's current electricity generation facilities and certain other assets located across The Bahamas. JVCo would sell all of the electricity generated by it to NewCo under two long term power purchase agreements. It is the Government's intention that JVCo will also decommission certain agreed-upon generating assets in the Family Islands and develop new generation capacity to replace the less efficient generating assets currently operated by BEC. It is contemplated that a share of the equity of JVCo may be offered to the public through a public offering of its shares within 36 months of the contract being finalised with the preferred bidder.

Bidders have been asked to submit proposals for a management agreement in respect of the operation of NewCo and a management agreement and/or a joint venture agreement in relation to JVCo. The Government of the Bahamas received technical proposals from various bidders on September 13, 2013 and received pricing proposals from qualifying bidders on November 15, 2013. The intention is to negotiate the necessary agreements with a view to signing contracts by the end of 2013, and thereafter the Government of The Bahamas envisions an approximately four-month transition period followed by a long-term operating period. Because the Government of the Bahamas may modify or terminate the RFP at any time in its sole discretion, there is no assurance that one or more bidders will be selected or that the partial privatization of BEC will occur.

In connection with the partial privatization of BEC, the Government of The Bahamas intends to introduce a new regulatory regime for the electricity sector designed to achieve significant reductions in the cost of energy generation and distribution and increased energy security, while fostering environmental responsibility, reliability, and increased competitiveness as a country. A second phase of reforms involving the renewable energy sector is contemplated for the future. The Government of The Bahamas has retained KPMG Advisory Services Ltd. as its financial and sector advisor, along with other technical and legal advisors, to assist it with managing the RFP and the reform of The Bahamas energy sector.

GOVERNMENT FINANCE

Budget Process

By virtue of the Constitution of The Bahamas and implementing acts, the Ministry of Finance is the central agency responsible for the preparation of the Government's budget, with the supreme approval authority vested in The Bahamas Parliament. The Constitution requires the Ministry of Finance to prepare, before the end of each fiscal year, annual estimates of revenues and expenditures for public services for the succeeding fiscal year. The budget system ensures that approved expenditures are spent only for approved purposes and are not exceeded. Accordingly, the budget, accounting and audit systems ensure financial and legal accountability of the executive branch of the Government to the legislature.

The budget consists of recurrent and capital revenues and recurrent and capital expenditures. The most significant recurrent revenues are customs duties, business fees, real property taxes and other tourism related taxes. Capital revenues consist of proceeds from the sale of Government assets. Recurrent expenditures comprise day-to-day operating expenditures of the Government and debt service. Capital expenditures consist of expenditures related to infrastructure and physical assets.

The budgetary process for each fiscal year begins in December prior to the fiscal year when a program of activities, including implementation dates, is agreed upon within the Ministry of Finance. In the following January, an assessment of the macro-economic environment for the coming fiscal year is undertaken, based primarily on forecasts for the Bahamian economy, the anticipated effect of the U.S. economic conditions on the Bahamian economy and, in particular, the state of the stopover visitor segment of the tourism industry. The assessment is discussed internally within the Ministry of Finance, and estimates are sought from other ministries and departments of the Government. Estimates obtained from other ministries and departments are subsequently examined by the Budget Division of the Ministry of Finance for compliance with policy and accuracy, completeness and reasonableness. When necessary, budget hearings are held to discuss specific estimates. Final estimates are integrated in a comprehensive budget document for submission to the Cabinet for deliberation. Thereafter, the Cabinet authorizes the Minister of Finance to present the budget to Parliament.

Following the end of each fiscal year, Government accounts are prepared by the Treasury Department and audited by the Audit Department and, together with the audit report, are then presented to Parliament. The accounts for each year contain detailed information regarding the Government's revenues (including grants, capital revenues and borrowings) during the prior year and the Government's expenditures (including debt service, equity and subsidy transfers to the public corporations) for the prior year. Until the audit report is presented to Parliament, the Government accounts are labeled as "provisional."

The Government's fiscal management program continues to focus on strengthening the overall budgetary situation through improvements in tax administration and enforcement capacity, enhancement of revenues and containment of expenditures and a carefully considered privatization program.

The fiscal year of The Bahamas consists of the twelve months ending June 30 of each year.

Fiscal 2013/2014 Budget

The fiscal 2013/2014 budget forecasts an overall deficit of \$434.9 million, as compared with a \$547.5 million budget deficit in fiscal 2012/2013. The budget forecast reflects the Government's estimate that, due to weakness in private sector demand, revenue will decline by \$42.4 million, or 2.8%, to \$1.5 billion in fiscal 2013/2014. Inclusive of net lending (\$57.6 million), the expenditure target was set at approximately \$1.9 billion, which is approximately \$154.9 million, or 7.4%, below the fiscal 2012/2013 budget. Capital spending is budgeted at \$235.3 million. To cover financing requirements, the Government has planned total new borrowings of \$521.3 million (not including the offering of notes contemplated in these Listing Particulars). Total Government debt repayment for fiscal 2013/2014 is projected at \$85.2 million, consisting of \$66.8 million in Bahamian dollars and \$18.4 million in foreign currency (not including the offering of notes contemplated in these Listing Particulars).

The following table sets forth the Government's revenue, expenditure and financing transactions for fiscal 2008 through the first eleven months of fiscal 2013 and the budgets for fiscal 2012/2013 and fiscal 2013/2014.

	Twelve months in fiscal year ended June 30,					Fiscal Year-to- Date May 31, 2013^(p)	Budget 2012/2013	Budget 2013/2014
	2008	2009	2010^(p)	2011^(p)	2012^(p)			
	(in millions)							
Revenue and Grants:								
Tax revenue.....	1,267.3	1,129.9	1,109.0	1,296.9	1,276.6	1,120.9	1,411.2	1,325.8
Non-tax revenue.....	156.7	194.2	193.5	136.0	150.7	129.3	121.1	159.4
Capital revenue.....	0.1	0.1	0.1	-	19.3	-	-	-
Grants.....	-	-	-	0.1	0.2	0.1	3.3	8.0
Total.....	<u>1,424.1</u>	<u>1,324.2</u>	<u>1,302.5</u>	<u>1,433.0</u>	<u>1,446.7</u>	<u>1,250.3</u>	<u>1,535.5</u>	<u>1,493.2</u>
Expenditure:								
Current expenditure.....	1,344.0	1,422.7	1,395.9	1,524.5	1,549.7	1,393.6	1,679.0	1,635.2
Capital expenditure.....	176.8	139.8	156.8	206.3	245.4	210.7	358.2	235.3
Total.....	<u>1,520.8</u>	<u>1,562.5</u>	<u>1,552.7</u>	<u>1,730.8</u>	<u>1,795.1</u>	<u>1,604.3</u>	<u>2,037.2</u>	<u>1,870.5</u>
Net lending to public corporations.....	54.1	123.1	89.4	72.9	102.4	90.1	45.8	57.6
Overall budget deficit.....	(150.8)	(361.3)	(339.5)	(370.7)	(450.6)	(444.0)	(547.5)	(434.9)
Internal borrowing:								
Bahamian dollars:								
Treasury bills (net).....	28.0	13.8	57.3	-	90.6	324.9	-	-
Loans/advances.....	-	25.0	15.0	58.6	93.7	53.0	-	-
Government securities ..	166.5	207.2	209.7	235.0	170.6	325.0	-	-
Total	<u>194.5</u>	<u>246.1</u>	<u>282.0</u>	<u>293.6</u>	<u>354.9</u>	<u>702.9</u>	<u>512.2</u>	<u>465.8</u>
Foreign currency:								
Loans.....	21.1	211.1	-	70.0	-	-	-	-
Government securities ..	-	-	-	-	-	-	-	-
Total.....	<u>21.1</u>	<u>211.1</u>	<u>-</u>	<u>70.0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total internal borrowing	215.6	457.2	282.0	363.6	354.9	702.9	512.2	465.8
External borrowing:								
Loans.....	5.9	56.6	18.3	73.7	80.3	229.3	157.0	55.5
Government securities ..	100.0	-	300.0	-	-	-	-	-
Total external borrowing	<u>105.9</u>	<u>56.6</u>	<u>318.3</u>	<u>73.7</u>	<u>80.3</u>	<u>229.3</u>	<u>157.0</u>	<u>55.5</u>
Debt repayment:								
Internal:								
Bahamian dollars	56.6	50.0	90.0	189.6	75.0	247.0	103.1	66.8
Foreign currency	21.8	51.8	161.8	70.9	-	-	-	-
Total.....	78.4	101.8	251.8	260.5	75.0	247.0	103.1	66.8
External.....	5.3	6.4	32.4	8.8	9.1	11.2	11.7	18.4
Total debt repayment....	83.6	108.2	284.2	269.3	84.1	258.2	114.8	85.2
Net borrowing (after debt repayment).....	237.8	405.6	316.1	168.1	351.1	674.0	554.4	436.1
Cash balance change increase (decrease)	(32.5)	(30.2)	26.5	26.4	5.5	(30.5)	-	-

Sources: Treasury Accounts and Treasury Statistical Summaries.

Revenues and Expenditures

The Government's overall deficit increased to \$444.0 million over the first eleven months of fiscal 2012/2013 from approximately \$297.4 million for the corresponding period in fiscal 2011/2012. The fiscal 2012/2013 deficit is a reflection of declines in Government revenue resulting from the global economic recession, which in turn resulted in a decline in consumption, coupled with modest increases in overall Government expenditures. The Government expects its overall deficit to decrease in fiscal 2013/2014 in comparison to the fiscal 2012/2013 budget as a result of a rise in non-tax receipts and decrease in both current and capital expenditures.

Current Revenues

The Bahamas does not have a system of direct taxation and relies on indirect taxes, mainly in the form of customs duties, stamp taxes, real property taxes and taxes on tourism activities. The majority of the revenue collected derives from taxes on international trade, which has represented approximately 46.2% of total revenue over the past five fiscal years. Non-tax revenue, comprising various fees, services charges and property sales, has accounted for an estimated 12.1% of total revenue over the past five fiscal years.

The following table sets forth the Government's current revenues for fiscal 2008 through the first eleven months of fiscal 2013 and the budget for each of fiscal 2012/2013 and fiscal 2013/2014.

	Twelve months in fiscal year ended June 30,					Fiscal Year-to- Date May 31, 2013 ^(p)	Budget 2012/ 2013	Budget 2013/ 2014
	2008	2009	2010 ^(p)	2011 ^(p)	2012 ^(p)			
Tax revenue								
Property tax	72.5	84.6	91.7	92.1	95.2	98.0	116.7	110.6
Selective tax on services	46.1	39.5	35.4	58.8	54.0	46.9	57.6	54.6
Business and professional license..	88.5	97.2	102.3	117.6	120.7	116.3	139.2	180.0
Motor vehicle tax	23.3	22.7	20.6	27.4	29.3	25.2	31.2	29.4
Departure tax	74.4	70.0	70.5	103.2	101.8	131.4	114.5	109.3
Import tax	529.7	379.5	348.5	354.1	347.9	303.2	389.8	373.5
Excise tax.....	-	187.2	188.4	253.7	331.3	226.5	358.1	272.3
Stamp tax from imports.....	149.8	15.4	15.1	16.0	17.6	15.9	17.9	-
Export tax	14.7	12.7	14.0	12.9	15.3	11.6	15.2	14.3
Stamp tax from exports	-	-	-	-	-	0.1	0.1	0.1
All other stamp tax.....	258.2	194.4	162.2	258.0	174.0	133.5	176.4	186.3
Other tax	18.8	21.6	49.4	12.0	-	26.3	-	-
Total tax revenue⁽¹⁾	1,267.3	1,129.9	1,109.0	1,296.9	1,276.6	1,120.9	1,411.2	1,325.8
Non-tax revenue:								
Income	46.8	92.5	105.7	40.9	54.30	40.6	27.7	34.8
Public enterprises ⁽²⁾	0.2	1.2	2.0	2.8	1.7	9.3	1.0	1.6
Other sources	46.6	91.3	103.7	38.1	52.6	31.3	26.7	33.2
Fines, forfeits and administration fees...	106.0	100.8	87.3	94.2	95.1	86.9	92.2	123.5
Sales of Government property	3.9	0.9	0.4	0.8	1.3	1.7	1.1	1.1
Other.....	-	-	0.1	-	-	-	-	-
Total non-tax revenue	156.7	194.2	193.5	136.0	150.7	129.3	121.1	159.4
Capital revenue	0.1	0.1	0.1	-	19.3	-	-	-
Grants	-	-	-	0.1	0.2	0.1	3.3	8.0
Total revenue and grants⁽¹⁾	1,424.1	1,324.2	1,302.5	1,433.0	1,446.7	1,250.3	1,535.5	1,493.1

(1) Excludes tax refunds in the amounts of \$8.5 million, \$5.1 million, \$10.9 million, \$8.8 million, \$10.6 million, \$14.0 million, \$5.5 million and \$4.7 million in the Fiscal 2007/2008 through Fiscal 2013/2014 budget, respectively.

(2) Includes public corporations

Sources: Treasury Accounts and Treasury Statistical Summaries.

Tax Reform

As part of the 2012/13 Budget Communication, the Government announced its plan to fundamentally reform the tax system, which will include the introduction of a Value Added Tax, or “VAT,” as of July 1, 2014 at a rate of 15%. The main objectives of the Government’s tax reform are to (a) secure an adequate revenue base; (b) promote economic efficiency and stronger economic growth and (c) make the tax system more equitable. In addition to introducing a VAT, the Government has also proposed to (a) effect the eventual reduction in import duty rates that will accompany The Bahamas’ accession to the World Trade Organization; (b) reduce excise tax rates to compensate for the VAT; (c) eliminate the Business License Tax as currently structured and (d) eliminate the Hotel

Occupancy Tax. With the introduction of VAT, along with the corresponding reductions, the Government expects a net 2.2 percentage points of GDP improvement in Recurrent Revenue annually.

Current and Capital Expenditure

A substantial portion of current expenditures is for the purchase of goods and services and personal emoluments (*i.e.*, wages and salaries), although a major proportion of capital expenditure is earmarked for developmental and infrastructural programs, with smaller sums relating to transfers to public corporations. On a functional basis, education accounts for the largest single category of expenditures, averaging approximately 17.5% of total spending over the past five years, followed by healthcare and interest payments with estimates of 16.4% and 10.7% of total spending, respectively. Outlays on social services other than education and healthcare approximate 6.9% of total spending.

The following table sets forth the Government's expenditures, by functional classification, for fiscal 2008 through the first eleven months of fiscal 2013 and budgeted expenditures for each of fiscal 2012/2013 and fiscal 2013/2014.

	<u>Twelve months in fiscal year ended June 30,</u>					<u>Fiscal</u> <u>Year-to-</u> <u>Date May</u> <u>31,</u> <u>2013^(p)</u>	<u>Budget</u> <u>2012/2013</u>	<u>Budget</u> <u>2013/2014</u>
	<u>2008</u>	<u>2009</u>	<u>2010^(p)</u>	<u>2011^(p)</u>	<u>2012^(p)</u>			
	(in millions)							
General public service:								
General administration	241.3	245.7	229.8	308.2	324.9	272.6	398.4	355.1
Public order & safety	179.2	182.8	170.2	176.1	187.5	177.8	194.5	190.1
Total general public service .	420.5	428.5	400.0	484.3	512.3	450.4	592.9	545.2
Defense	50.2	49.1	45.6	48.1	52.1	48.5	60.0	82.0
Education	304.4	292.0	275.6	266.6	278.8	255.3	297.5	287.8
Health.....	257.8	267.2	267.2	265.0	276.2	244.8	286.9	274.1
Social benefits and services:								
General administration reg. research	18.5	30.5	28.0	31.2	32.7	34.7	37.4	39.0
Old age, disability and services.....	54.3	53.9	60.8	59.9	63.5	61.8	61.9	62.6
Other public assistance	24.8	29.4	25.4	25.8	22.6	20.4	39.1	27.3
Collective social services	-	-	-	-	0.6	0.6	0.7	0.7
Total social benefits and services	97.7	113.8	114.2	116.8	119.3	117.5	139.2	129.6
Housing.....	11.8	6.8	4.4	3.9	3.8	3.0	5.3	4.4
Other community and social services.	18.8	20.9	22.2	20.2	21.1	18.3	20.5	17.2

	Twelve months in fiscal year ended June 30,					Year-to- Date May 31,	Budget	Budget
	2008	2009	2010 ^(p)	2011 ^(p)	2012 ^(p)	2013 ^(p)	2012/2013	2013/2014
	(in millions)							
Economic services:								
Agriculture and fisheries.....	15.0	16.2	15.1	14.4	14.1	12.8	19.0	17.6
Land survey and meteorological.....	5.4	5.5	4.6	4.3	4.7	4.0	6.0	4.5
Transportation	22.2	19.8	19.9	29.5	21.3	38.3	34.5	26.5
Central ministry... Road transportation division	-	-	-	-	-	8.4	10.2	6.7
Air transportation	5.6	5.6	5.1	5.0	5.3	4.9	5.5	4.7
Water transportation	13.6	13.1	14.4	24.1	15.8	25.0	18.6	15.1
Post office	3.1	1.1	0.4	0.5	0.1	-	0.1	-
Labor employment services.....	3.6	3.9	2.8	3.5	3.5	3.6	4.1	3.8
Communications ...	3.3	6.1	8.3	8.3	8.2	4.4	6.0	5.7
Hotel affairs and services.....	0.2	-	-	-	-	-	-	-
Tourism.....	-	-	-	-	-	-	-	-
Public works and water supply	86.9	84.8	60.3	69.3	80.3	59.2	85.9	83.0
Total economic services.....	79.9	93.7	134.0	185.7	213.3	156.2	272.9	159.8
Unallocable:	216.5	229.9	245.0	315.1	345.3	278.4	428.3	300.9
Internal:								
Bahamian Dollar	125.7	129.6	140.3	162.7	137.9	136.0	146.3	165.5
Foreign Currency.....	0.5	0.4	2.1	0.7	-	-	-	-
Total internal..	126.2	130.0	142.4	163.4	137.9	136.0	146.3	166.5
External	16.9	24.2	36.1	47.4	48.2	52.1	60.3	64.0
Total unallocable	143.1	154.2	178.5	210.8	186.1	188.1	206.5	229.4
Total expenditure ..	1,520.8	1,562.5	1,552.6	1,730.8	1,795.0	1,604.3	2,037.2	1,870.5

Sources: Treasury Accounts and Treasury Statistical Summaries.

The following table sets forth the Government's expenditures for fiscal 2008 through the first eleven months of fiscal 2013 and budgeted expenditures for each of fiscal 2012/2013 and fiscal 2013/2014.

	Twelve months in fiscal year ended June 30,					Fiscal Year-	Budget	Budget
	2008	2009	2010 ^(p)	2011 ^(p)	2012 ^(p)	to-Date May 31, 2013 ^(p)	2012/2013	2013/2014
Current expenditure:	(in millions)							
Consumption:								
Purchases of goods and services.....	288.7	322.2	264.6	313.3	356.6	302.3	409.0	314.5
Personal emoluments...	552.0	573.1	580.2	581.8	608.2	541.7	634.5	649.6
Total Consumption	<u>840.7</u>	<u>895.3</u>	<u>844.8</u>	<u>895.1</u>	<u>964.8</u>	<u>844.0</u>	<u>1,043.5</u>	<u>964.1</u>
Transfer payments ⁽¹⁾	503.3	527.3	551.1	629.4	584.8	549.6	635.5	671.1
Interest payments	143.1	154.2	178.5	210.8	186.1	188.1	206.5	229.4
Internal borrowings..	126.2	130.0	142.4	163.4	137.9	136.0	146.3	165.5
Bahamian dollars ...	125.7	129.6	140.3	162.7	137.9	136.0	146.3	165.5
Foreign currency	0.5	0.4	2.1	0.7	-	-	-	-
External borrowings.	16.9	24.2	36.1	47.4	48.2	52.1	60.3	64.0
Subsidies and other transfers:								
Subsidies	194.7	204.9	207.9	205.7	212.2	193.5	225.0	265.4
Transfers to nonfinancial public enterprises ⁽²⁾	14.1	15.2	12.5	16.7	15.5	12.9	19.1	15.9
Transfers to public corporations ⁽³⁾	7.2	4.1	5.1	4.1	15.8	13.4	4.3	4.0
Transfers to households..	91.0	92.7	98.0	125.2	101.6	95.3	119.2	104.8
Transfers to non-profit institutions.....	42.6	45.7	40.2	54.9	43.2	38.6	49.1	39.5
Transfers abroad.....	<u>10.6</u>	<u>10.5</u>	<u>9.0</u>	<u>12.1</u>	<u>10.4</u>	<u>7.8</u>	<u>12.3</u>	<u>12.0</u>
Total subsidies and other transfers	<u>360.2</u>	<u>373.1</u>	<u>372.6</u>	<u>418.6</u>	<u>398.7</u>	<u>361.5</u>	<u>428.9</u>	<u>441.7</u>
Total current expenditure	<u>1,344.0</u>	<u>1,422.7</u>	<u>1,395.9</u>	<u>1,524.5</u>	<u>1,549.7</u>	<u>1,393.6</u>	<u>1,679.0</u>	<u>1,635.2</u>
Capital expenditure:								
Capital formation	115.2	110.9	143.4	171.9	202.0	170.8	311.7	165.0
Acquisition of assets:								
Land	16.7	8.3	4.6	12.9	17.9	3.9	6.6	11.0
Equities	1.0	-	-	8.6	10.4	7.3	22.0	14.5
Other	<u>38.7</u>	<u>18.3</u>	<u>4.7</u>	<u>10.1</u>	<u>11.7</u>	<u>13.6</u>	<u>13.3</u>	<u>42.5</u>
Total acquisition of assets.....	56.5	26.6	9.3	31.6	40.1	24.7	41.9	68.0
Transfers to nonfinancial public enterprises ..	5.1	2.3	0.8	0.6	1.1	12.9	2.5	2.2
Transfers to public corporations ⁽⁴⁾	-	-	3.3	2.2	2.2	2.2	2.2	-
Total capital expenditures...	<u>176.8</u>	<u>139.8</u>	<u>156.8</u>	<u>206.3</u>	<u>245.4</u>	<u>210.7</u>	<u>358.2</u>	<u>235.3</u>
Total expenditure	<u>1,520.8</u>	<u>1,562.5</u>	<u>1,552.6</u>	<u>1,730.8</u>	<u>1,795.0</u>	<u>1,604.3</u>	<u>2,037.2</u>	<u>1,870.5</u>

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

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

(3) Represents Government transfers to public corporations used to make interest payments.

(4) Represents Government transfers to public corporations used to make principal payments.

Sources: Treasury Accounts and Treasury Statistical Summaries.

PUBLIC SECTOR DEBT

General

The public sector debt of The Bahamas consists of direct internal and external debt obligations of the Government and the public corporations. The Government believes that the level of public sector debt continues to be relatively low as compared with many other countries, but the public sector debt as a percentage of GDP has grown steadily since 2008. Since gaining our independence in 1973, The Bahamas has never defaulted in the payment of principal or interest on any of its internal or external indebtedness to any lender or investor. However, from time to time the Government has cured defaults on intra-governmental debt between wholly owned Government agencies.

At December 31, 2012, the public sector debt of The Bahamas totaled approximately \$5,702.9 million, including approximately \$589.9 million which represented guaranteed debt of the public corporations and approximately \$718.3 million which represented non-Government-guaranteed debt of the public corporations. Of the approximately \$4,394.6 million in direct debt obligations of the Government, approximately \$3,375.3 million (or 76.4%) represented debt denominated in Bahamian dollars and the balance of approximately \$1,037.3 million (or 23.6%) represented debt denominated in foreign currencies, primarily U.S. dollars.

As used herein, the term “external debt” means debt initially incurred or issued outside The Bahamas, regardless of the currency of denomination, while “internal debt” means debt initially incurred or issued in The Bahamas, regardless of the currency of denomination.

All long-term borrowings by the Government must be approved by Parliament. The legal authorizations for the issuance of the notes offered hereby are set forth in the resolution of the House of Assembly, dated June 18, 2013, which authorizes the Minister of Finance to borrow approximately \$465.8 million. The Government does not expect that this financing, which to a large extent will result in a refinancing of existing Government indebtedness, will detract from the Government’s aim of reducing its fiscal deficit or reducing its debt-to-GDP ratio.

Short-term advances by the Central Bank to the Government may not exceed the lesser of 10% of the average ordinary revenue of the Government for the last three years or 10% of the estimated ordinary revenue set forth in the most recently approved budget estimates. At December 31, 2012, the Central Bank’s advances to the Government were approximately \$105.7 million, which represents 7.6% of average ordinary revenue and 6.9% of estimated ordinary revenue. In addition, the Fiscal Reform and Tax Relief Act of 1990 limits the amount of Treasury Bills outstanding to the lesser of 25% of the average ordinary revenue for the year or 25% of the estimated ordinary revenue set forth in the most recently approved budget estimates. At June 30, 2013, outstanding Treasury Bills amounted to approximately \$588.3 million, which is approximately 42.2% of the average ordinary revenue for the years 2009/2010 through 2011/2012 and approximately 38.3% of the estimated ordinary revenue for 2012/2013.

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

The Ministry of Finance is currently seeking proposals from qualified financial institutions to provide financing for the purchase of vessels for the Royal Bahamas Defense Force by the Ministry of National Security from Damen Shipyards Gorinchem for approximately €141 million. The financing will be structured in two tranches. Tranche A will be secured by Altradius/Dutch Export Agency and will account for 85% of the financing. Tranche B will be an unsecured facility and will account for 15% of the financing.

For a description of foreign currency loans by Bahamian banks to the private sector, see “Monetary and Financial System.”

The following table sets forth the national debt of The Bahamas for 2008 through 2012.

	Years Ended December 31,				
	2008 ^(p)	2009 ^(p)	2010 ^(p)	2011 ^(p)	2012 ^(p)
	(in millions)				
Direct Charge					
External Debt (by Instrument)					
Government securities	300.0	600.0	600.0	600.0	600.0
Loans	83.6	103.1	127.9	198.5	437.3
Total external debt.....	<u>383.6</u>	<u>703.1</u>	<u>727.9</u>	<u>798.5</u>	<u>1,037.3</u>
External Debt (by Holder)					
Bilateral financial institutions	4.2	4.2	4.2	26.7	40.7
International financial institutions					
.....	79.4	99.0	123.7	171.8	216.5
Private capital markets.....	300.0	600.0	600.0	600.0	600.0
Other financial institution	-	-	-	-	180.0
Total external debt.....	<u>383.6</u>	<u>703.1</u>	<u>727.9</u>	<u>798.5</u>	<u>1,037.3</u>
Internal Debt (by Instrument)					
Foreign currency:					
Government securities	-	-	-	-	-
Loans.....	3.6	1.8	70.0	-	-
Total foreign currency.....	<u>3.6</u>	<u>1.8</u>	<u>70.0</u>	<u>-</u>	<u>-</u>
Bahamian dollars**					
Advances.....	72.0	97.0	112.0	110.6	105.7
Treasury bill	230.5	244.3	301.6	301.6	349.1
Government securities.....	2,071.7	2,268.9	2,503.6	2,593.6	2,872.3
Loans.....	5.2	5.2	5.2	0.2	30.2
Total Bahamian dollars..	<u>2,379.4</u>	<u>2,615.5</u>	<u>2,922.5</u>	<u>3,006.1</u>	<u>3,357.3</u>
Total internal debt	<u>2,383.0</u>	<u>2,617.3</u>	<u>2,992.5</u>	<u>3,006.1</u>	<u>3,357.3</u>
Internal Debt (by Holder)					
Foreign currency:					
Commercial banks.....	3.6	1.8	70.0	-	-
Other local financial institutions					
.....	-	-	-	-	-
Total foreign currency.....	<u>3.6</u>	<u>1.8</u>	<u>70.0</u>	<u>-</u>	<u>-</u>
Bahamian dollars:					
The Central Bank	203.0	201.5	274.3	292.8	405.0
Commercial banks.....	691.7	886.4	1,066.8	1,118.3	1,187.8
Other local financial institutions					
.....	2.9	4.2	7.0	9.4	10.7
Public corporations.....	720.8	723.0	702.5	685.0	730.2
Other	760.9	800.4	871.9	900.7	1,023.7
Total Bahamian dollars	<u>2,379.4</u>	<u>2,615.5</u>	<u>2,922.5</u>	<u>3,006.1</u>	<u>3,357.3</u>
Total internal debt	<u>2,383.0</u>	<u>2,617.3</u>	<u>2,992.5</u>	<u>3,006.1</u>	<u>3,357.3</u>
Total foreign currency debt*					
.....	<u>387.2</u>	<u>704.9</u>	<u>797.9</u>	<u>798.5</u>	<u>1,037.3</u>
Total Direct Charge	<u><u>2,766.6</u></u>	<u><u>3,320.4</u></u>	<u><u>3,720.4</u></u>	<u><u>3,804.6</u></u>	<u><u>4,394.6</u></u>

	Years Ended December 31,				
	2008 ^(p)	2009 ^(p)	2010 ^(p)	2011 ^(p)	2012 ^(p)
	(in millions)				
Contingent Liabilities					
Bahamas Development Bank	56.8	57.1	55.0	52.9	50.9
Bahamas Electricity Corporation					
.....	76.2	214.9	206.7	198.3	224.9
Bahamas Water & Sewerage Corp.	18.3	16.4	14.4	12.5	21.7
Bridge Authority	28.0	28.0	28.0	28.0	28.0
Bahamasair	5.3	1.0	-	-	7.0
Bahamas Mortgage Corporation					
.....	159.7	164.3	155.8	156.6	164.3
Educational Guarantee Fund	7.8	7.4	7.1	7.0	6.7
Education Loan Authority.....	60.4	67.0	67.0	67.0	67.0
Airport Authority	10.0	8.8	6.6	4.4	2.2
The Clifton Heritage Authority	24.0	24.0	24.0	24.0	24.0
Total contingent liabilities.	<u>446.5</u>	<u>589.0</u>	<u>564.6</u>	<u>550.7</u>	<u>596.6</u>
Total National Debt	<u>3,213.1</u>	<u>3,909.4</u>	<u>4,285.0</u>	<u>4,355.3</u>	<u>4,991.2</u>

*External plus internal foreign currency debt.

As the above table shows, total Government debt has increased since 2008, reflecting a weakening of the Government's fiscal accounts. The Government recognizes that continued debt accumulation may increase the vulnerability of the Bahamian economy to adverse domestic or external factors. As a result, the Government has placed a high priority on reducing the ratio of Government debt-to-GDP in the medium term.

The following table sets forth (in percentages) Government debt outstanding by remaining maturity as of December 31, 2012.

<u>Remaining Years Until Maturity</u>	<u>Bahamian Dollar</u>	<u>Foreign Currency</u>
Less than 5 years.....	26.9%	0.1%
5-10 years	21.1%	23.2%
10-15 years	20.6%	1.3%
15 years or more	31.3%	75.4%
Total.....	<u>100.0%</u>	<u>100.0%</u>

Source: The Central Bank.

Internal Debt

Total direct internal Government debt was approximately \$3,357.3 million as of December 31, 2012, representing an increase of approximately 11.7% over the corresponding amount as of December 31, 2011. Internal debt has been incurred or issued only in Bahamian dollars and U.S. dollars. However, no restrictions exist to prevent the incurrence or issuance of public debt in The Bahamas in other currencies or composite currencies.

The following table sets forth the composition of the direct internal debt of the Government by holder for the calendar years 2008 through 2012.

	Years Ended December 31,				
	2008 ^(p)	2009 ^(p)	2010 ^(p)	2011 ^(p)	2012 ^(p)
	(in millions)				
Bahamian Dollars					
The Central Bank	203.0	201.5	274.3	292.8	405.0
Commercial banks	691.7	886.4	1,066.8	1,118.3	1,187.8
Other local financial institutions ...	2.9	4.2	7.0	9.4	10.7
Public corporations	720.8	723.0	702.5	685.0	730.2
Other	760.9	800.4	871.9	900.7	1023.7
Total	2,379.4	2,615.5	2,922.5	3,006.1	3,357.3
Foreign currency					
Commercial banks	3.6	1.8	70.0	-	-
Total	3.6	1.8	70.0	-	-
Total internal debt.....	2,383.0	2,617.3	2,992.5	3,006.1	3,357.3

Sources: Treasury Accounts and Treasury Statistical Summaries.

As of December 31, 2012, internal debt represented 76.4% of The Bahamas' total direct Government debt. The entire \$3,357.3 million in total internal direct debt of the Government at December 31, 2012 was denominated in Bahamian dollars. Between 2008 and 2012, internal direct debt rose by approximately 40.9%.

For a description of the internal debt (guaranteed and other) of the public corporations, see “—Debt of Public Corporations.”

External Debt

Total direct external Government debt was approximately \$1,037.3 million as of December 31, 2012, representing an increase of approximately 29.9% compared to the corresponding amount as of December 31, 2011. The external debt set forth in the table below is denominated principally in U.S. dollars. The following is a summary of debt securities issued and outstanding by the Commonwealth:

- In July 2003, The Bahamas completed a sovereign note offering in the international capital markets, issuing U.S.\$200.0 million of 6.625% Notes due 2033. The 6.625% Notes, which will mature on May 15, 2033, provide for semi-annual interest payments.
- In April 2008, The Bahamas completed an offering in the international capital markets of U.S.\$100.0 million of 7.125% Notes due 2038. The 7.125% Notes, which will mature on April 2, 2038, also provide for semi-annual interest payments.
- In November 2009, The Bahamas completed an offering in the international capital markets of U.S.\$300.0 million of 6.950% Notes due 2029. The 6.950% Notes, which will mature on November 20, 2029, provide for semi-annual interest payments.

The following table sets forth the composition of the direct external debt of the Government by holder of such debt for 2008 through 2012.

	Years Ended December 31,				
	2008 ^(p)	2009 ^(p)	2010 ^(p)	2011 ^(p)	2012 ^(p)
	(in millions)				
Bilateral	4.2	4.2	4.2	26.7	40.7
International financial institutions	79.4	99.0	123.7	171.8	216.5
Private capital markets	300.0	600.0	600.0	600.0	600.0
Other Financial Institutions..	-	-	-	-	180.0
Total.....	383.6	703.1	727.9	798.5	1,037.3

Sources: Treasury Accounts and Treasury Statistical Summaries.

For a description of the external debt (guaranteed and other) of public corporations, see “—Debt of Public Corporations.”

Historically, The Bahamas has not relied on external debt to finance its current accounts. As of December 31, 2012, the external debt of the Government and the public corporations accounted for approximately 25.5% of total public sector debt.

Foreign Currency Debt

The following table sets forth the composition of the foreign currency public sector debt (including the debt of public corporations) for calendar years 2008 through 2012.

	Years Ended December 31,				
	2008 ^(p)	2009 ^(p)	2010 ^(p)	2011 ^(p)	2012 ^(p)
	(in millions)				
Direct internal debt	3.6	1.8	70.0	-	-
Direct external debt.....	383.6	703.1	727.9	798.5	1,037.3
Total direct debt.....	387.2	704.9	797.9	798.5	1,037.3
Government-guaranteed debt of Public Corporations	118.6	248.3	232.7	218.2	256.6
Total Public Sector Debt.....	505.8	953.2	1,030.6	1,016.7	1,293.9
Non-Government-guaranteed debt.....	354.1	186.4	327.1	436.1	573.6
Total (including non-Government guaranteed debt of public corporations).....	859.9	1,139.6	1,357.7	1,453.1	1,867.5

Sources: Treasury Accounts and Public Corporations Reports.

The following table sets forth foreign currency public sector debt (including the debt of public corporations) by holder of such debt for calendar years 2008 through 2012.

	Years Ended December 31,				
	2008 ^(p)	2009 ^(p)	2010 ^(p)	2011 ^(p)	2012 ^(p)
	(in millions)				
Multilateral:					
Inter-American Development Bank	87.2	106.2	130.4	178.0	228.2
European Union, European Investment Bank	14.5	11.6	8.5	5.4	4.2
Caribbean Development Bank	10.5	8.6	6.2	3.9	6.7
Total multilateral	112.3	126.4	145.1	187.2	239.1
Bilateral:					
Export/Import Bank of China.....	4.2	4.2	4.2	26.7	40.7
Export Development Bank of Canada.....	14.8	17.2	-	15.9	-
Total bilateral	19.0	21.4	4.2	42.7	40.7
Commercial	416.8	357.4	419.5	423.2	414.7
Suppliers/Other	311.9	634.5	788.8	799.9	1,172.9
Total foreign currency public sector debt.....	859.9	1,139.6	1,357.7	1,453.1	1,867.5

Sources: Treasury Accounts and Public Corporations Reports.

The Government has in recent years relied on the IADB to provide financing for a number of its infrastructural development projects.

Substantially all foreign currency public sector debt borrowings were at variable interest rates linked primarily to LIBOR or the U.S. prime rate. The profile of foreign currency public sector debt (including non-Government guaranteed debt of public corporations) as of December 31, 2012 was as follows:

<u>Currency</u>	<u>% Share</u>
U.S. dollar.....	97.6%
European Currency Units.....	0.2%
Chinese Yuan.....	2.2%
Total.....	100%

Bahamian Dollar Debt

Public sector debt denominated in Bahamian dollars increased by approximately 41.1% between 2008 and 2012. At December 31, 2012, public sector Bahamian dollar-denominated public debt (including the debt of public corporations) consisted of approximately \$3,357.3 million in direct debt from domestic bank loans and securities issued and a total of approximately \$478.0 million of total public corporation debt (of which approximately \$333.3 million was contractually guaranteed by the Government). Substantially all Bahamian-dollar public sector debt borrowings were at variable interest rates linked to the Bahamian, commercial banks prime rate.

The following table sets forth the composition of the public sector debt (including the debt of public corporations) in Bahamian dollars in each of the calendar years from 2008 through 2012.

	Years Ended December 31,				
	2008 ^(p)	2009 ^(p)	2010 ^(p)	2011 ^(p)	2012 ^(p)
	(in millions)				
Total direct debt.....	2,379.4	2,615.5	2,922.5	3,006.1	3,357.3
Government-guaranteed debt	320.1	333.3	324.8	325.6	333.3
Total.....	2,699.5	2,948.8	3,247.3	3,331.7	3,690.6
Non-Government-guaranteed debt.....	74.6	106.9	116.7	139.6	141.7
Total (including non-Government guaranteed debt of public corporations)	2,774.1	3,055.7	3,364.0	3,471.3	3,832.4

Sources: Treasury Accounts and Public Corporations Reports.

Debt of Public Corporations

In light of the Government's ownership interests in the public corporations, the Government is a guarantor by contract of certain indebtedness of the public corporations, and the incurrence of any debt by the public

corporations is subject to Government approval, as described in “Government Enterprises—Public Corporations.” Guarantees by the Government of any public corporation indebtedness are in addition to the Government’s direct indebtedness. The Government has never had to make any guarantee payment on any indebtedness of the public corporations. However, from time to the time the Government has cured defaults on intra-governmental debt between wholly owned Government agencies.

The following table shows the composition of the internal and external debt of public corporations (including both the debt contractually guaranteed by The Bahamas and the debt not supported by the Government’s guarantee) for each of the calendar years from 2008 through 2012.

	Years Ended December 31,				
	2008 ^(p)	2009 ^(p)	2010 ^(p)	2011 ^(p)	2012 ^(p)
	(in millions)				
External debt:					
Government-guaranteed loans:					
Bahamas Electricity Corporation	5.8	3.9	2.0	-	-
Water and Sewerage Corporation	18.3	16.4	14.4	12.5	21.7
Bahamas Development Bank	8.8	7.1	5.0	2.9	0.9
Total	<u>32.8</u>	<u>27.4</u>	<u>21.4</u>	<u>15.4</u>	<u>22.6</u>
Non-Government-guaranteed loans					
Bahamas Telecommunication Corp.	11.9	6.1	1.8	-	-
Water and Sewerage Corporation	-	0.1	-	-	-
Nassau Airport Development Company	14.8	30.0	164.0	227.7	392.9
Total	<u>26.7</u>	<u>36.1</u>	<u>165.8</u>	<u>227.7</u>	<u>392.9</u>
Total external debt	<u>59.5</u>	<u>63.5</u>	<u>187.3</u>	<u>243.1</u>	<u>415.5</u>
Internal debt:					
Bahamian dollars:					
Government-guaranteed loans					
Bahamas Mortgage Corp.	159.7	164.3	155.8	156.6	164.3
Bahamas Development Bank	48.0	50.0	50.0	50.0	50.0
Bahamasair	-	-	-	-	-
Bridge Authority	28.0	28.0	28.0	28.0	28.0
Education Loan Authority	60.4	67.0	67.0	67.0	67.0
The Clifton Heritage Authority	24.0	24.0	24.0	24.0	24.0
Water and Sewerage Corporation	-	-	-	-	-
Total	<u>320.1</u>	<u>333.3</u>	<u>324.8</u>	<u>325.6</u>	<u>333.3</u>
Non-Government-guaranteed loans					
Bahamas Electricity Corporation	62.4	48.4	43.5	43.0	43.0
Water and Sewerage Corporation	-	0.2	0.2	0.1	-
Bahamas Development Bank	6.5	6.2	5.6	5.2	7.8
Hotel Corporation	0.5	0.5	0.5	0.5	0.5
Bahamasair	0.5	0.4	0.3	0.2	-
College of The Bahamas	4.8	11.2	26.7	59.0	61.7
Nassau Airport Development Co.	-	40.0	40.0	31.7	31.7
Total	<u>74.6</u>	<u>106.9</u>	<u>116.7</u>	<u>139.6</u>	<u>144.7</u>
Total Bahamian dollar	<u>394.7</u>	<u>440.2</u>	<u>441.5</u>	<u>465.2</u>	<u>478.0</u>
Foreign currency:					
Government-guaranteed loans					
Bahamas Electricity Corporation	70.4	211.0	204.7	198.3	224.9
Bahamasair	5.3	1.0	-	-	7.0
Airport Authority	10.0	8.8	6.6	4.4	2.2
Total	<u>85.7</u>	<u>220.8</u>	<u>211.3</u>	<u>202.7</u>	<u>234.1</u>
Non-Government-guaranteed loans:					
Bahamas Electricity Corporation	207.3	57.0	104.5	124.5	114.9
Bahamas Telecommunication Corporation	49.1	40.8	33.8	-	-
Nassau Airport Development Company	71.0	102.5	73.0	84.2	65.8
Total	<u>327.4</u>	<u>200.2</u>	<u>211.3</u>	<u>208.7</u>	<u>180.7</u>
Total internal foreign currency.....	413.2	421.1	422.5	411.4	414.7
Total internal debt.....	807.8	861.3	864.0	876.6	892.8
Total foreign currency debt*.....	472.7	484.6	609.8	654.5	830.2
Total debt	<u>867.4</u>	<u>924.8</u>	<u>1,051.3</u>	<u>1,119.7</u>	<u>1,308.3</u>

*Includes internal and external debt.

Source: Quarterly Reports from Public Corporations.

Total Debt Service

The following table sets forth the public sector debt service indicators (including the debt service of public corporations) for the period from 2008 through 2012.

	Years Ended December 31,				
	2008 ^(p)	2009 ^(p)	2010 ^(p)	2011 ^(p)	2012 ^(p)
	(in percentages)				
Foreign currency					
Total debt service as a percentage of exports of goods and non-factor services	2.8	20.2	7.4	5.4	5.1
Debt service/GDP	1.3	7.9	3.0	2.4	2.4
Public sector debt/GDP	10.4	15.2	17.9	18.5	22.9
Bahamian dollars					
Debt service/GDP	2.7	3.4	3.6	6.0	4.2
Public sector debt/GDP	33.6	39.1	42.6	44.1	47.1

Sources: Treasury Accounts and the Central Bank.

During the six-year period ended December 31, 2012, foreign currency debt service accounted for an average of 3.3% of GDP and Bahamian dollar debt service accounted for an average of 3.8% of GDP. The foreign currency public sector debt-to-GDP ratio rose from 10.4% in 2008 to 17.2% in 2010, accelerating further to 22.9% in 2012, and the Bahamian dollar public sector debt-to-GDP ratio increased from 33.6% in 2008 to 42.6% in 2010 and to 47.1% in 2012. If Government debt accumulation continues to increase, the vulnerability of the Bahamian economy to adverse domestic or external factors may also increase.

The following table sets forth the public sector debt service schedule (including the debt service of the public corporations) for each of the calendar years from 2008 through 2012.

	Years Ended December 31,				
	2008 ^(p)	2009 ^(p)	2010 ^(p)	2011 ^(p)	2012 ^(p)
	(in millions)				
Foreign currency:					
Government	48.4	271.6	56.9	126.9	62.4
Public corporations	59.7	346.8	180.8	59.2	129.7
Total foreign currency debt service	108.1	618.4	237.7	186.1	192.1
Government debt service to Government revenue (%)	3.37%	20.39%	4.55%	8.07%	4.5%
Bahamian dollars:					
Government	189.2	209.9	237.8	361.3	294.5
Public corporations	31.0	54.1	46.6	110.0	51.7
Total	220.2	264.0	284.4	471.3	346.3
Government Bahamian dollars debt service to Government revenue (%)	13.2%	15.8%	19.0%	23.0%	21.1%
Total debt service	328.3	882.4	522.1	657.4	538.4

Sources: Treasury Accounts and Public Corporations Reports.

Bahamian dollar debt service requirements increased by 57.3% to \$346.3 million between 2008 and 2012. Foreign currency debt service increased from approximately \$108.1 million to approximately \$192.1 million over the same period. In recent years, the debt service requirements for Bahamian dollar debt have outweighed such requirements for foreign currency debt, consistent with the higher Bahamian dollar debt burden. From 2009 through 2011, the ratio of foreign currency debt service to Government revenues decreased from 20.4% to 8.1%. In addition, during 2012, the ratio decreased by approximately half to 4.5%.

The following table sets forth the projected public sector debt service schedule (including the debt service of the public corporations) as of December 31, 2012. The table does not give effect to the issuance of the notes offered hereby.

	Years Ended December 31,									
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
	(in millions)									
Amortization:										
Bahamian dollars:										
Government.....	95.8	81.0	125.0	133.0	137.0	140.0	135.0	146.6	149.7	160.0
Public corporations.....	2.3	4.5	3.0	10.0	6.0	27.8	3.5	13.8	26.3	7.8
Total	98.1	85.5	128.0	143.0	143.0	167.8	138.5	160.4	176.0	167.8
Foreign currency										
Government.....	7.0	14.1	19.2	23.0	25.6	27.4	27.4	25.3	24.0	200.1
Public corporations.....	229.8	11.9	11.4	68.4	15.5	15.5	5.3	4.7	4.7	4.7
Total	236.8	26.0	30.6	91.4	41.1	42.9	32.7	30.0	28.7	204.8
Total amortization	334.9	111.5	158.6	234.4	184.1	210.7	171.2	190.4	204.7	372.6
Interest:										
Bahamian dollars:										
Government.....	71.3	141.3	136.9	130.8	123.9	117.2	110.1	103.5	95.5	88.4
Public corporations.....	10.9	21.6	21.4	21.4	20.8	20.4	19.1	18.9	18.2	16.5
Total	82.2	162.9	158.3	152.2	144.7	137.6	129.2	122.4	113.7	104.9
Foreign currency:										
Government.....	28.9	59.0	59.0	58.4	57.5	56.7	55.9	55.1	54.4	53.8
Public corporations.....	20.3	34.2	33.0	32.6	28.6	28.2	27.9	27.8	27.8	27.7
Total	49.2	93.2	92.0	91.0	86.1	84.9	83.8	82.9	82.2	81.5
Total interest.....	131.4	256.1	250.3	243.2	230.8	222.5	213.0	205.3	195.9	186.4
Total Debt Service:										
Bahamian dollars:										
Government.....	167.1	222.3	261.9	263.8	260.9	257.2	245.1	250.1	245.2	248.4
Public corporations.....	13.2	26.1	24.4	31.4	26.8	48.2	22.6	32.7	44.5	24.3
Total	180.3	248.4	286.3	295.2	287.7	305.4	267.7	282.8	289.7	272.7
Foreign currency:										
Government.....	35.9	73.1	78.2	81.4	83.1	84.1	83.3	80.4	78.4	253.9
Public corporations.....	250.1	46.1	44.4	101.0	44.1	43.7	33.2	32.5	32.5	32.4
Total	286.0	119.2	122.6	182.4	127.2	127.8	116.5	112.9	110.9	286.3
Total debt service	466.3	367.6	408.9	477.6	414.9	433.2	384.2	395.7	400.6	559.0

Source: The Central Bank.

The table above does not give effect to the issuance of the notes offered hereby.

Debt Record

Since gaining independence in 1973, The Bahamas has never defaulted in the payment of principal or interest on any of its internal or external indebtedness to any lender or investor. However, from time to time the Government has cured defaults on intra-governmental debt between wholly-owned Government agencies and corporations. For more information regarding the Government's obligations as guarantor of certain indebtedness of the public corporations, see "—Debt of Public Corporations" above.

DESCRIPTION OF THE NOTES

The notes were issued under a Fiscal Agency Agreement, dated as of January 16, 2014, among the Government, The Bank of New York Mellon, as Fiscal Agent, or the “Fiscal Agent,” which term includes any successor as Fiscal Agent under the Fiscal Agency Agreement, and The Bank of New York Mellon (Luxembourg) S.A. A copy of the Fiscal Agency Agreement is available for inspection during normal business hours at the office of the Fiscal Agent or any paying agent, collectively the “Paying Agents,” with respect to the notes.

The following descriptions of certain provisions of the notes and the Fiscal Agency Agreement are subject to, and are qualified in their entirety by reference to, the terms and conditions of the notes and the Fiscal Agency Agreement, including the definitions therein of certain terms.

General

The notes were initially issued in an aggregate principal amount of U.S.\$300 million, bear interest from January 16, 2014 at a rate per annum of 5.750% and will mature at par on January 16, 2024. Interest on the notes will be payable semiannually in arrears in equal installments on January 16 and July 16 of each year (each such date, a “Payment Date”), commencing on July 16, 2014 to the persons in whose names the notes are registered at the close of business 15 days preceding the relevant Payment Date, whether or not such day is a Business Day. Interest on the notes will be calculated on the basis of a 360-day year of twelve 30-day months.

The Government may replace the Fiscal Agent at any time, subject to the appointment of a replacement fiscal agent. If a replacement fiscal agent is appointed, the Government will, if and for so long as the notes are listed on the Luxembourg Stock Exchange, publish a notice regarding such appointment in a leading newspaper having general circulation in Luxembourg. The Fiscal Agent is not a trustee for the holders of the notes and does not have the same responsibilities or duties to act for such holders as would a trustee. The Government may maintain deposit accounts and conduct other banking transactions in the ordinary course of business with the Fiscal Agent.

The Government maintains a principal paying agent, a transfer agent and a registrar in New York City and, if and for so long as the notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange require, in Luxembourg. The Government may replace a paying agent at any time, subject to the appointment of a replacement paying agent. If a replacement paying agent is appointed, the Government will, if and for so long as the notes are listed on the Luxembourg Stock Exchange, publish a notice regarding such appointment in a leading newspaper having general circulation in Luxembourg.

The notes may be transferred or exchanged at the offices or agencies maintained by the Government for such purpose (which initially will be the office of the Fiscal Agent specified on the inside back cover page of these Listing Particulars).

Status of the Notes

The notes are direct, general, unsecured, unsubordinated and unconditional obligations of the Government and rank *pari passu*, without any preference or priority of payment, among themselves and with all other present and future unsecured and unsubordinated Indebtedness (as defined under “—Negative Pledge” below) of the Government. The Government has pledged its full faith and credit for the due and punctual payment of all amounts due in respect of the notes.

Form, Denomination, Book-Entry Procedures and Transfer

The notes were offered and sold within the United States to qualified institutional buyers in reliance on Rule 144A. Notes also were offered and sold outside the United States in reliance on Regulation S. The notes were issued only in fully registered form, without interest coupons. The notes were issued in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

Global Bonds

The notes were initially issued in the form of two registered notes in global form, as follows:

- notes sold to qualified institutional buyers in reliance on Rule 144A under the Securities Act were represented by a Global Note, the Restricted 144A Global Note; and
- notes sold in offshore transactions to non-U.S. persons in reliance on Regulation S were represented by a Global Note, the Regulation S Global Note.

Upon issuance, each of the Global Notes was deposited with the Fiscal Agent as custodian for The Depository Trust Company, or “DTC,” and registered in the name of Cede & Co., as nominee of DTC.

Ownership of beneficial interests in each Global Note is limited to persons who have accounts with DTC, the DTC participants, or persons who hold interests through DTC participants. The Government expects that under procedures established by DTC:

- upon deposit of each Global Note with DTC’s custodian, DTC credited portions of the principal amount of the Global Note to the accounts of DTC participants designated by the initial purchasers; and
- ownership of beneficial interests in each Global Note are shown on, and transfer of ownership of those interests will be effected only through, records maintained by DTC (with respect to interests of DTC participants) and the records of DTC participants (with respect to other owners of beneficial interests in each Global Note).

Beneficial interests in the Regulation S Global Note were initially credited within DTC to Euroclear and Clearstream Banking on behalf of the owners of such interests. Investors that purchased notes in this offering may hold their interests in the Regulation S Global Note directly through Euroclear or Clearstream Banking, if they are participants in those systems, or indirectly through organizations that are participants in those systems; however, upon issuance of the notes, the Government settled by delivering interests in the Regulation S Global Note solely through Euroclear or Clearstream Banking. Each of Euroclear and Clearstream Banking appointed a DTC participant to act as its depository for the interests in the Regulation S Global Note that are held within DTC for the account of each of these settlement systems on behalf of its respective participants.

The laws of some states of the United States require that certain persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a Global Note to such persons may be limited to that extent. Because DTC can act only on behalf of participants, which in turn act on behalf of indirect participants and certain banks, the ability of a person having beneficial interests in a Global Note to pledge such interests to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests. For certain other restrictions on the transferability of the notes, see “—Exchanges between the Global Notes.”

Beneficial interests in the Global Notes may not be exchanged for notes in physical certificated form except in the limited circumstances described below.

Each Global Note and beneficial interests in each Global Note will be subject to restrictions on transfer as described under “Notice to Investors.”

The information in this section concerning DTC, Euroclear and Clearstream Banking and their book-entry systems has been obtained from sources that the Government believes to be reliable, and the Government makes no representation or warranty with respect thereto.

Exchanges between the Global Notes

Beneficial interests in a Regulation S Global Note may be exchanged for beneficial interests in a Restricted 144A Global Note only if such exchange occurs in connection with a transfer of the note pursuant to Rule 144A and the transferor first delivers to the Fiscal Agent a written certificate (in the form provided in the Fiscal Agency Agreement) to the effect that the notes are being transferred to a person who the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A under the Securities Act, purchasing for its own account or the account of one or more qualified institutional buyers in a transaction meeting the requirements of Rule 144A and in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

Beneficial interests in a Restricted 144A Global Note may be transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note only if the transferor first delivers to the Fiscal Agent a written certificate (in the form provided in the Fiscal Agency Agreement) to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S or Rule 144 (if available).

Any beneficial interest in one of the Global Notes that is transferred to a person who takes delivery in the form of an interest in the other Global Note will, upon transfer, cease to be an interest in such Global Note and will become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Note for so long as it remains such an interest.

Book-Entry Procedures for the Global Notes

All interests in the Global Notes are subject to the operations and procedures of DTC, Euroclear and Clearstream Banking. The Government provides the following summaries of those operations and procedures solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. Neither the Government nor the initial purchasers are responsible for those operations or procedures.

DTC has advised that it is:

- a limited purpose trust company organized under the laws of the State of New York;
- a “banking organization” within the meaning of the New York State Banking Law;
- a member of the U.S. Federal Reserve System;
- a “clearing corporation” within the meaning of the Uniform Commercial Code; and
- a “clearing agency” registered under Section 17A of the U.S. Securities Exchange Act of 1934, as amended, or the “Exchange Act”.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between its participants through electronic book-entry changes to the accounts of its participants. DTC’s participants include securities brokers and dealers; banks and trust companies; clearing corporations; and other organizations. Indirect access to DTC’s system is also available to others such as banks, brokers, dealers and trust companies; these indirect participants clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Investors who are not DTC participants may beneficially own securities held by or on behalf of DTC only through DTC participants or indirect participants in DTC.

So long as DTC’s nominee is the registered owner of a Global Note, that nominee will be considered the sole owner or holder of the notes represented by that Global Note for all purposes under the Fiscal Agency Agreement. Except as provided below, owners of beneficial interests in a Global Note:

- will not be entitled to have notes represented by the Global Note registered in their names;
- will not receive or be entitled to receive physical, certificated notes; and
- will not be considered the owners or holders of the notes under the Fiscal Agency Agreement for any purpose, including with respect to the giving of any direction, instruction or approval to the Fiscal Agent under the Fiscal Agency Agreement.

As a result, each investor who owns a beneficial interest in a Global Note must rely on the procedures of DTC to exercise any rights of a holder of notes under the Fiscal Agency Agreement (and, if the investor is not a participant or an indirect participant in DTC, on the procedures of the DTC participant through which the investor owns its interest in the notes).

Payments of principal and interest with respect to the notes represented by a Global Note will be made by the Fiscal Agent to DTC's nominee as the registered holder of the Global Note. Neither the Government nor the Fiscal Agent will have any responsibility or liability for the payment of amounts to owners of beneficial interests in a Global Note, for any aspect of the records relating to or payments made on account of those interests by DTC, or for maintaining, supervising or reviewing any records of DTC relating to those interests.

Payments by participants and indirect participants in DTC to the owners of beneficial interests in a Global Note will be governed by standing instructions and customary industry practice and will be the responsibility of those participants or indirect participants and DTC.

Transfers between participants in DTC will be effected under DTC's procedures and will be settled in same-day funds. Transfers between participants in Euroclear or Clearstream Banking will be effected in the ordinary way under the rules and operating procedures of those systems.

Cross-market transfers between DTC participants, on the one hand, and participants in Euroclear or Clearstream Banking, on the other hand, will be effected within DTC through the DTC participants that are acting as depositaries for Euroclear and Clearstream Banking. To deliver or receive an interest in a Global Note held in a Euroclear or Clearstream Banking account, an investor must send transfer instructions to Euroclear or Clearstream Banking, as the case may be, under the rules and procedures of that system and within the established deadlines of that system. If the transaction meets its settlement requirements, Euroclear or Clearstream Banking, as the case may be, will send instructions to its DTC depository to take action to effect final settlement by delivering or receiving interests in the relevant Global Note in DTC, and making or receiving payment under normal procedures for same-day funds settlement applicable to DTC. Euroclear and Clearstream Banking participants may not deliver instructions directly to the DTC depositaries that are acting for Euroclear or Clearstream Banking.

Because of time zone differences, the securities account of a Euroclear or Clearstream Banking participant that purchases an interest in a Global Note from a DTC participant will be credited on the business day for Euroclear or Clearstream Banking immediately following the DTC settlement date. Cash received in Euroclear or Clearstream Banking from the sale of an interest in a Global Note to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream Banking cash account as of the business day for Euroclear or Clearstream Banking following the DTC settlement date.

DTC, Euroclear and Clearstream Banking have agreed to the above procedures to facilitate transfers of interests in the Global Notes among participants in those settlement systems. However, the settlement systems are not obligated to perform these procedures and may discontinue or change these procedures at any time. Neither the Government nor the Fiscal Agent will have any responsibility for the performance by DTC, Euroclear or Clearstream Banking or their participants or indirect participants of their obligations under the rules and procedures governing their operations.

Certificated Notes

Notes in physical, certificated form will be issued and delivered to each person that DTC identifies as a beneficial owner of the related notes only if:

- DTC notifies the Government at any time that it is unwilling or unable to continue as depository for the Global Notes and a successor depository is not appointed within 90 days;
- DTC ceases to be registered as a clearing agency under the Exchange Act and a successor depository is not appointed within 90 days;
- the Government, at its option, notifies the Fiscal Agent that it elects to cause the issuance of certificated notes; or
- an Event of Default (as defined under “—Events of Default; Acceleration of Maturity” below) shall have occurred and be continuing with respect to such notes.

Payments

All payments on the notes will be made in immediately available funds in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment therein of public and private debts.

Payments of the principal of, interest on and Additional Amounts (as defined under “—Additional Amounts”) on or in respect of any Global Note will be made to DTC, in accordance with DTC procedures, or to its nominee (or any successor thereto) as the registered owner thereof. Neither the Government nor the Fiscal Agent or any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial interests in the Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

Payments of interest in respect of each note will be made by the Paying Agents by wire transfer in immediately available funds to an account maintained by such holder at a bank located in New York or in Europe as may have been appropriately designated by such person to the Fiscal Agent in writing not later than 15 days prior to the relevant Payment Date (or such other date as the Fiscal Agent may accept). Unless such designation is revoked, any such designation made by such person with respect to such notes will remain in effect with respect to any future payments with respect to such notes payable to such person.

Any payment of principal or interest required to be made on a Payment Date which is not a Business Day need not be made on such day, but may be made on the next succeeding Business Day with the same force and effect as if made on such Payment Date, and no interest shall accrue with respect to such payment for the period from and after such Payment Date. As used herein, the term “Business Day” means any day, other than a Saturday or Sunday, on which banks in New York City (and, in the case of any certificated note, in the place of presentment thereof in accordance with the terms of such note) are not required or authorized by law or executive order to be closed.

All payments are subject in all cases to any applicable tax or other laws and regulations, but without prejudice to the provisions of “—Additional Amounts.” No commissions or expenses shall be charged to the note holders in respect of such payments.

Subject to applicable law, any monies held by the Fiscal Agent for the payment of principal or interest on the notes that remains unclaimed for two years after such amount shall have become due and payable shall be returned to the Government, and holders entitled to such monies shall thereafter look only to the Government for any payment to which such holders may be entitled. Claims against the Government for the payment of principal and interest in respect of the notes shall become void unless presentation for payment is made within a period of ten

years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined under “—Additional Amounts”), to the extent permitted by applicable law.

If a note becomes mutilated, defaced, destroyed, lost or stolen, the Government may issue, and the Fiscal Agent will authenticate and deliver, a substitute note. In each case, the applicant for a substitute note will be required to furnish to the Government and to the Fiscal Agent (or to any Paying Agent at whose offices the applicant presents the notes for exchange) an indemnity under which it will agree to pay the Government, the Fiscal Agent and any other agent for any losses they may suffer relating to the note that was mutilated, defaced, destroyed, lost or stolen. The Government and the Fiscal Agent may also require that the applicant present other documents or proof. The applicant will be required to pay all expenses and reasonable charges associated with the replacement of the mutilated, defaced, destroyed, lost or stolen note.

Further Issuances

The Government may from time to time, without the consent of note holders, create and issue further notes having the same terms and conditions as the notes in all respects, except for issue date, issue price and the first payment of interest thereon. Additional notes issued in this manner will be consolidated with and will form a single series with the previously outstanding notes, except that if such additional notes are not fungible with the notes for U.S. federal income tax purposes, such additional notes will be assigned a separate CUSIP and/or ISIN number.

Optional Redemption

The notes are redeemable at any time at the option of the Government, in whole or in part, at a redemption price equal to the greater of (1) 100% of the principal amount of the notes to be redeemed, and (2) the sum of the present values of the Remaining Scheduled Payments discounted, on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months), at a rate equal to the sum of the applicable Treasury Rate plus 50 basis points. In either case, accrued interest, if any, will be paid to the date of redemption.

For purposes of the Government’s redemption right described above, the following terms have the meanings specified below:

“Comparable Treasury Issue” means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of sovereign debt securities of comparable maturity to the remaining term of the notes.

“Comparable Treasury Price” means, with respect to any Redemption Date, as determined by the Independent Investment Banker (i) the average of the Reference Treasury Dealer Quotations for such Redemption Date, after excluding the highest and lowest of such Reference Treasury Dealer Quotations, or (ii) if the Independent Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Independent Investment Banker” means J.P. Morgan Securities LLC, RBC Capital Markets or one of the Reference Treasury Dealers appointed by the Fiscal Agent at the Government’s direction.

“Redemption Date” when used with respect to any note to be redeemed means the date which is a Business Day fixed for such redemption by the Government pursuant to the Fiscal Agency Agreement.

“Reference Treasury Dealer Quotations” mean, with respect to each Reference Treasury Dealer and any Redemption Date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer, at 3:30 p.m., New York City time, on the third Business Day preceding such Redemption Date.

“Reference Treasury Dealers” means any four nationally recognized investment banking firms, and their successors, selected by the Government that are each also a primary U.S. Government securities dealer. If any Reference Treasury Dealer shall cease to be a primary U.S. Government securities dealer, the Government will substitute another nationally recognized investment banking firm that is a primary U.S. Government securities dealer.

“Remaining Scheduled Payments” means, with respect to the notes to be redeemed, the remaining scheduled payments of principal of and interest on those notes that would be due after the related Redemption Date but for that redemption; provided, however, that if such Redemption Date is not an interest payment date with respect to the notes to be redeemed, the amount of the next succeeding scheduled interest payment on those notes will be reduced by the amount of interest accrued on such notes to such Redemption Date.

“Treasury Rate” means, with respect to any Redemption Date, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that Redemption Date.

Notice of any redemption will be mailed by first-class mail, postage prepaid, or delivered in accordance with the procedures of the applicable depository, at least 30 but not more than 60 days before the redemption date to holders of notes to be redeemed at their respective registered addresses. For so long as the notes are listed on the official list of the Luxembourg Stock Exchange for trading on the Euro MTF Market and the rules of such exchange require, the Government will also cause notices of redemption to be published as described under “–Notices” below. The notes, when called for redemption as specified herein, will become due on the date fixed for redemption. The Government will pay the redemption price for the notes together with accrued and unpaid interest thereon through the redemption date. On and after the redemption date, interest will cease to accrue on the notes so long as the Government has deposited with the Trustee or appropriate Paying Agent funds in satisfaction of the applicable redemption price pursuant to the Fiscal Agency Agreement. Upon redemption of the notes by the Government, the notes will be cancelled.

Open Market Purchases

The Government may at any time purchase any of the notes in any manner for any consideration. If purchases are made by tender, tenders must be available to all holders of notes alike. Any notes that are so purchased by the Government will be cancelled and may not be reissued or resold.

Covenants

So long as any note remains outstanding or any amount payable under the Fiscal Agency Agreement remains unpaid, the Government will:

- (i) notify the Fiscal Agent in writing promptly upon becoming aware of the occurrence of any Event of Default or potential Event of Default;
- (ii) ensure that its obligations under the notes will at all times constitute direct, general, unsecured and unconditional obligations of the Government ranking *pari passu* without any preference or priority of payment, among themselves and with all other present and future unsecured and unsubordinated Indebtedness of the Government;
- (iii) give prompt notice to the Fiscal Agent of any future appointment or any resignation or removal of any Paying Agent or of any change by any Paying Agent of any of its specified offices;
- (iv) maintain its membership in, and its eligibility to use the general resources of, the International Monetary Fund; and

- (v) ensure that the Central Bank of the Commonwealth of The Bahamas makes available to the Government sufficient U.S. dollars to enable the Government to perform its payment obligations under the notes and the Fiscal Agency Agreement.

Negative Pledge

So long as any note remains outstanding, the Government will not create or permit to exist any Security Interest (as defined below) in any of its present or future revenues or assets to secure Public Indebtedness (as defined below) of the Government, unless (i) the notes are secured equally and ratably with such Public Indebtedness or (ii) the notes have the benefit of such other security, guarantee, indemnity or other arrangement as shall be approved by the holders of the notes as provided under “—Meetings of Note holders, Modification and Waiver”; *provided, however*, that the Government may create or permit to exist:

- (i) Security Interests existing on January 13, 2014 securing Public Indebtedness incurred or assumed by the Government;
- (ii) Security Interests securing Public Indebtedness incurred or assumed by the Government in connection with a Project Financing (as defined below), provided that (a) the aggregate principal amount of Public Indebtedness secured by such Security Interests shall not exceed (but may be less than) the lesser of cost and fair market value of the assets of the project for which the Project Financing was incurred and (b) the holders of such Public Indebtedness agree to limit their recourse to the assets and revenues of such project as the principal source of repayment of such Public Indebtedness (subject to normal nonrecourse carve-outs);
- (iii) Security Interests securing Public Indebtedness incurred or assumed by the Government to finance the acquisition of the assets or property in which such Security Interest has been created or permitted to exist (including any Security Interests that exist on such acquired assets or property on the date of acquisition of such assets or property), provided that such Security Interests shall not encumber any other assets or property of the Government;
- (iv) Security Interests extending, renewing or replacing in whole or in part any Security Interest permitted by clause (i), (ii) or (iii) above; *provided, however*, that (a) such Security Interests do not extend beyond the assets, revenues or property subject to the then existing Security Interest, and (b) the Public Indebtedness secured by such Security Interests may not exceed the Public Indebtedness secured at the time by the then existing Security Interest; and
- (v) Security Interests securing Public Indebtedness (excluding Public Indebtedness permitted by clauses (i) through (iv) above) which does not have an aggregate principal amount in excess of U.S.\$25,000,000 (or its equivalent in any other currency).

For purposes of this covenant and of “—Events of Default; Acceleration of Maturity” below, the following terms have the meanings specified below:

“Indebtedness” means any present or future indebtedness for borrowed money (including, without limitation, any loans, bonds, notes or other securities), or any guarantee thereof.

“Project Financing” means any financing of all or part of the costs of the acquisition, construction or development of any project in which the person or persons providing such financing expressly agree to limit their recourse to the project financed.

“Public Indebtedness” means any Indebtedness that is in the form of, or represented by, bonds, notes or other securities that are, or are expressly intended to be at the time of issuance, quoted, listed or ordinarily purchased or sold on any stock exchange, automated trading system or over-the-counter or other securities market.

“Security Interest” means any mortgage, charge, lien, deed of trust, pledge, security interest, other encumbrance or preferential arrangement which has the practical effect of constituting a security interest with respect to the payment of any present or future obligations with or from the proceeds of any assets or revenues of any kind.

Additional Amounts

Payments of principal and interest in respect of the notes are not currently subject to withholding or deduction for any taxes, duties, assessments or Governmental charges of whatever nature, or “Taxes,” in the Commonwealth of The Bahamas. See “Taxation.” In the event that payments of principal and interest in respect of the notes become subject to withholding or deduction for Bahamian Taxes in the future, the Government will pay such additional amounts, or “Additional Amounts,” as will result in receipt by the holders of notes of such amounts as would have been received by them had no such withholding or deduction been required; *provided* that no such Additional Amounts shall be payable with respect to any note to or on behalf of a holder or beneficial owner who is liable for Taxes in respect of such note (i) by reason of such holder or beneficial owner having some connection with the Commonwealth of The Bahamas other than the mere holding of such note or the receipt of principal or interest in respect thereof, (ii) by reason of the failure of such holder to comply with any certification, identification or other reporting requirement, if such holder is legally able to comply, concerning the nationality, residence, identity or connection with the Commonwealth of The Bahamas, or any political subdivision or taxing authority thereof or therein, of the holder or beneficial owner of a note or any interest therein or rights in respect thereof, if (a) compliance is required by the Commonwealth of The Bahamas, or any political subdivision or taxing authority thereof or therein, as a precondition to exemption from such deduction or withholding, (b) at least 30 days prior to the first Payment Date with respect to which such requirements shall apply, the Government shall have notified all holders of notes that such holders will be required to comply with such requirements and (c) such requirements are not materially more onerous to such holders (in form, in procedure or in the substance of information disclosed) than comparable information or other reporting requirements imposed under U.S. federal tax law, regulation and administration practice (such as IRS Forms W-8BEN, W-8ECI, W-8IMY and W-9) or (iii) by reason of the failure of such holder to present such holder’s note for payment (where such presentation is required) within 30 days after the date on which such payment became due and payable or the date on which payment thereof is duly provided for and notice thereof is given to the holder, whichever occurs later, or the “Relevant Date,” except to the extent that the holder thereof would have been entitled to Additional Amounts in presenting the note for payment on any date during such 30-day period.

The Government will furnish documentation evidencing the payment of any Taxes to the holders of the notes or beneficial owners of the notes upon request.

No Additional Amounts shall be payable in respect of any note to a holder that is a fiduciary or partnership or other than the sole beneficial owner of such payment to the extent the beneficiary or settlor with respect to such fiduciary or a member of such partnership or a beneficial owner would not have been entitled to receive payment of the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the holder of such note. Any reference herein, in the Fiscal Agency Agreement or in any note to principal and interest shall be deemed to refer to any Additional Amount which may be payable under the undertakings referred to in this provision.

Except as provided above, the Government shall not be required to pay any Additional Amounts (or make any other payment) with respect to Taxes of whatever nature imposed or levied by any government or political subdivision or taxing authority thereof or therein.

The Government will pay any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies which arise in the Government or any political subdivision thereof or taxing authority thereof or therein in respect of the creation, issue, execution, delivery or registration of the notes or any other document or instrument referred to therein. The Government will also indemnify the holders of the notes from and against any stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies resulting from, or required to be paid by any of them in any jurisdiction in connection with, the enforcement of the obligations of the Government under the notes or any other document or instrument referred to therein following the occurrence of any Event of Default (as defined below).

Events of Default; Acceleration of Maturity

If one or more of the following events with respect to the notes (herein referred to as “Events of Default”) shall have occurred and be continuing:

- (i) (a) the Government shall fail to pay any principal on the notes when due; or (b) the Government shall fail to pay interest or Additional Amounts on the notes when due, and such failure to pay interest shall continue for a period of 30 days;
- (ii) the Government shall fail to perform any obligation contained in the notes which is referred to under “—Negative Pledge” above, and such failure shall continue for a period of 30 days;
- (iii) the Government shall fail to perform any other obligation contained in the notes which failure is materially prejudicial to the interests of the holders of the notes, and such failure shall continue for a period of 60 days after written notice requiring the same to be remedied shall have been given to the Government by the Fiscal Agent or the holder of any note;
- (iv) Public Indebtedness of the Government having an aggregate principal amount in excess of U.S.\$25,000,000 (or its equivalent in any other currency) shall have been accelerated by reason of any event of default (however described);
- (v) the Government shall fail to make any payment in respect of Public Indebtedness of the Government in an aggregate principal amount in excess of U.S.\$25,000,000 (or its equivalent in any other currency) when due (as such date may be extended as a result of any applicable grace period or waiver);
- (vi) any writ, execution, attachment or similar process shall be levied, after January 16, 2014, against all or any substantial part of the assets of the Government in connection with any judgment for the payment of money exceeding U.S.\$25,000,000 (or its equivalent in other currencies) and shall remain unsatisfied, undischarged and in effect for a period of 60 days without a stay of execution, unless such judgment is adequately bonded or is being contested in good faith by appropriate proceedings properly initiated and diligently conducted and, in either case, such process is not executed against such assets;
- (vii) the Government shall declare a general moratorium with respect to any payment of any Indebtedness of the Government which does not expressly exclude the notes;
- (viii) the Government shall deny, contest or repudiate any of its obligations under the notes;
- (ix) it becomes unlawful for the Government to (a) pay any amounts under the notes or (b) perform or comply with any one or more material obligations under the notes or the Fiscal Agency Agreement; or
- (x) failure by the Government to maintain its membership in, and its eligibility to use the general resources of, the IMF, and such failure continues for a period of 60 days;

then the Fiscal Agent, at the written request of holders of not less than 25% in principal amount of the notes outstanding, shall, by written notice to the Government, declare all the notes then outstanding to be immediately due and payable, and upon any such declaration the same shall become and shall be immediately due and payable upon the date that such written notice is received by the Government, unless prior to such date the Event of Default or Events of Default giving rise to such declaration shall have been cured or waived. If such Event of Default or Events of Default giving rise to any such declaration of acceleration shall be cured following such declaration, such declaration may be rescinded by the holders of a majority in aggregate principal amount of the notes then outstanding in accordance with the procedures described in “—Meetings of Note holders, Modification and Waiver”

below. However, no such rescission shall extend to or shall affect any subsequent default or shall impair any right consequent thereon.

Meetings of Note holders, Modification and Waiver

A meeting of holders of the notes may be called, as set forth below, at any time and from time to time to make, give or take any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Fiscal Agency Agreement or the notes to be made, given or taken by holders of notes or to modify, amend or supplement the terms of the notes or the Fiscal Agency Agreement as hereinafter provided. The Fiscal Agent at the request of the Government may at any time call a meeting of holders of the notes for any such purpose to be held at such time and at such place in the Borough of Manhattan, The City of New York, New York, as the Fiscal Agent at the request of the Government shall determine. Notice of every such meeting, setting forth the time and the place of such meeting and in general terms the action proposed to be taken at such meeting, shall be given as provided in the terms of the notes, not less than 30 nor more than 60 days prior to the date fixed for the meeting. If at any time the holders of at least 10% in aggregate principal amount of the outstanding (as defined in the Fiscal Agency Agreement) notes shall have requested the Fiscal Agent to call a meeting of the holders of the notes for any such purpose, by written request setting forth in reasonable detail the action proposed to be taken at the meeting, the Fiscal Agent shall call such meeting for such purposes by giving notice thereof.

To be entitled to vote at any meeting of holders of notes, a person shall be a holder of outstanding notes or a person duly appointed by an instrument in writing as proxy for such a holder. Except as set forth below, the holders or proxies representing a majority in principal amount of the outstanding notes shall constitute a quorum. At the reconvening of any meeting adjourned for a lack of a quorum, the holders or proxies representing 25% of the aggregate principal amount of the outstanding notes will constitute a quorum for the taking of any action set forth in the notice of the original meeting. For purposes of a meeting of holders of notes that proposes to discuss the "reserved matters," which are specified below, the holders or proxies representing 75% of the aggregate principal amount of the outstanding notes will constitute a quorum. The Fiscal Agent may make such reasonable and customary regulations consistent with the Fiscal Agency Agreement as it shall deem advisable for any meeting of holders of notes with respect to, among other things, the proof of the appointment of proxies in respect of holders of notes, the adjournment and chairmanship of such meeting, the appointment and duties of inspectors of votes, certificates and other evidence of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem appropriate.

With (i) the affirmative vote, in person or by proxy thereunto duly authorized in writing, of the holders of not less than 66 2/3% in aggregate principal amount of the outstanding notes that are represented at a meeting duly called and held as specified above, or (ii) the written consent of the holders of not less than 66 2/3% in aggregate principal amount of the outstanding notes, the Government and the Fiscal Agent may, upon agreement between themselves, modify, amend or supplement the terms of the notes or, insofar as it affects the notes, the Fiscal Agency Agreement, in any way, and such holders may make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided by the Fiscal Agency Agreement or the relevant notes to be made, given or taken by holders of the notes; *provided, however*, that any such action to be effected pursuant to clause (i) above must be approved by the holders of not less than 25% of the aggregate principal amount of notes then outstanding; and *provided, further*, that no such action may, without the consent of the holders of not less than 75% of the aggregate principal amount of outstanding notes, voting at a meeting or by written consent, (a) change the due date for the payment of the principal of, or any installment of interest on, any note, (b) reduce the principal amount of any note, or the portion of such principal amount which is payable upon acceleration of the maturity of such note or the interest rate thereon, (c) change the coin or currency in which, or the required place at which, payment with respect to interest or principal in respect of the note is payable, (d) reduce the proportion of the principal amount of the notes the vote or consent of the holders of which is necessary to modify, amend or supplement the Fiscal Agency Agreement or the terms and conditions of the notes or to make, take or give any request, demand, authorization, direction, notice, consent, waiver or other action provided hereby or thereby to be made, taken or given, (e) change the obligation of the Government to pay Additional Amounts, (f) change the governing law provisions of the notes, (g) change the courts to the jurisdiction of which the Government has submitted, (h) change the Government's obligation to appoint and maintain an agent for service of process, (i) change the Government's waiver of immunity in respect of actions or proceedings brought by any holder based upon the notes, or (j) reduce the percentage in

principal amount of outstanding notes that constitutes the quorum required at any meeting of holders of notes at which a resolution is adopted.

The above subjects in clauses (a) through (j) are referred to as “reserved matters.” A change to a reserved matter, including the payment terms of the notes, can be made without the consent of individual note holders, as long as a supermajority of the holders (that is, the holders of at least 75% of the aggregate principal amount of the outstanding notes) agree to the change.

The Government and the Fiscal Agent may, upon agreement between themselves, without the vote or consent of any holder of notes, modify, amend or supplement the Fiscal Agency Agreement or the notes for the purpose of (i) adding to the covenants of the Government for the benefit of the holders of notes, (ii) surrendering any right or power conferred upon the Government, (iii) securing the notes pursuant to the requirements of the Fiscal Agency Agreement or otherwise, (iv) curing any ambiguity, or curing, correcting or supplementing any defective provision contained in the Fiscal Agency Agreement or in the notes or (v) amending the Fiscal Agency Agreement or the notes in any manner which the Government may determine and which shall not adversely affect the interest of any holder of notes in any material respect.

For purposes of determining whether the required percentage of holders of the notes has approved any amendment, modification or change to, or waiver of, the notes or the Fiscal Agency Agreement, or whether the required percentage of holders has delivered a notice of acceleration of the notes, notes owned, directly or indirectly, by the Government or any public sector instrumentality of the Government will be disregarded and deemed not to be outstanding, except that in determining whether the Fiscal Agent shall be protected in relying upon any amendment, modification, change or waiver, or any notice from holders, only notes that the Fiscal Agent knows to be so owned shall be so disregarded. As used in this paragraph, “public sector instrumentality” means any department, ministry or agency of the Government or any corporation, trust, financial institution or other entity controlled by the Government or any of the foregoing, and “control” means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

Notices

The Government will mail notices to holders of the notes at their registered addresses. The Government will consider any mailed notice to have been given on the date of mailing.

The Government will also publish notices to the holders of the notes in leading newspapers having circulation in New York City and London. The Government anticipates that it will make such publications in *The Wall Street Journal* and the *Financial Times*. In addition, if and for so long as the notes are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, the Government will publish notices to the holders of the notes in a leading newspaper having general circulation in Luxembourg or, alternatively, on the website of the Luxembourg Stock Exchange at <http://www.bourse.lu>.

Neither the failure to give notice nor any defect in any notice given to any particular holder of a note shall affect the sufficiency of any notice with respect to any other notes.

Governing Law and Submission to Jurisdiction

The Fiscal Agency Agreement and the notes are governed by, and construed in accordance with, the laws of the State of New York.

The Government has agreed that any legal suit, action or proceeding arising out of or relating to the notes may be instituted by the note holders in any U.S. federal or New York state court of competent jurisdiction located in the Borough of Manhattan, The City of New York, New York, and will waive, to the fullest extent that it may effectively do so under applicable U.S. law, any objection to venue and any right to assert a defense of an inconvenient forum in response to any such legal suit, action or proceeding. Any process or other legal summons in

connection with any such action may be served upon the Consul General of the Commonwealth of The Bahamas, at his or her offices at 231 East 46th Street, New York, New York 10017, acting as agent for service of process for The Bahamas. The Government will irrevocably waive and agree not to plead, to the fullest extent that it may effectively do so under applicable law, any immunity (including sovereign immunity) from the jurisdiction of any such federal or New York state court of competent jurisdiction located in the Borough of Manhattan, The City of New York, New York, to which it might otherwise be entitled in any such suit, action or proceeding arising out of or based upon the notes, except for immunity from execution and attachment as set forth in Section 19(4) of the Crown Proceedings Act (discussed below). Notwithstanding anything to the contrary, the Government will not consent to service or waive sovereign immunity with respect to actions brought against it under U.S. federal securities laws or any state securities laws. The Government has waived any immunity that it may claim under the Immunities Act, except as set forth above in this paragraph.

The Government will irrevocably waive, to the fullest extent permitted by law, any requirement or other provision of law, rule, regulation or practice, which requires or otherwise establishes as a condition to the institution, prosecution or completion of any action or proceeding (including appeals) arising out of or relating to the notes, the posting of any bond or the furnishing, directly or indirectly, of any other security.

Section 19(4) of the Crown Proceedings Act provides that no execution or attachment or process in the nature thereof shall be issued out of any court in The Bahamas for enforcing payment by the Government of any money or costs, and no person shall be individually liable under any order for the payment by the Government of any money or costs. The Crown Proceedings Act also provides that, where in any proceedings by or against the Government any order (including an order for costs) is made by any court in The Bahamas in favor of any person against the Government, the proper officer of the court shall, on an application made by or on behalf of that person at any time after the expiration of 21 days from the date of the order or, in the case in which the order provides for the payment of costs and such costs are required to be taxed, at any time after the taxing of costs, whichever is later, issue a certificate to such person, a copy of which may be served upon the Attorney General of The Bahamas. If the order provides for the payment of money or costs, the Minister of Finance of The Bahamas shall pay the amount due to such person.

Judgments of a foreign court against the Government where the Government has not appeared in the relevant proceedings, or has unsuccessfully claimed immunity in such proceedings, may not be enforceable in the courts of The Bahamas on the grounds of public policy.

Judgment Currency

The Government has agreed that, if a judgment or order given or made by any court or arbitration tribunal for the payment of any amount in respect of any note is expressed in a currency, or the “judgment currency,” other than the currency, or the “denomination currency,” in which such note is denominated, the Government will pay any deficiency arising or resulting from any variation in rates of exchange between the date as of which the amount in the denomination currency is notionally converted into the amount in the judgment currency for the purposes of such judgment or order and the business day immediately following the date of actual payment thereof. This obligation constitutes a separate and independent obligation from the other obligations under the notes, gives rise to a separate and independent cause of action, applies irrespective of any waiver or extension granted from time to time and will continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due in respect of the relevant note or under any such judgment or order.

Concerning the Fiscal Agent

The Fiscal Agency Agreement contains provisions relating to the obligations and duties of the fiscal agent, to the indemnification of the Fiscal Agent and to the Fiscal Agent’s relief from responsibility for actions that it takes. The Fiscal Agent is entitled to enter into business transactions with the Government or any of its affiliates without accounting for any profit resulting from such transactions.

NOTICE TO INVESTORS

Because of the following restrictions, investors are advised to consult legal counsel prior to making any offer, sale, resale, pledge or other transfer of the notes.

The notes have not been and will not be registered under the Securities Act or with any securities regulatory authority in any jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except that notes may be offered or sold within the United States to qualified institutional buyers in reliance upon the exemption from the registration requirements of the Securities Act provided by Rule 144A.

Each purchaser of the notes hereunder has been deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

- (i) it represented that it (a) is a qualified institutional buyer, purchasing the notes for its own account or for the account of one or more qualified institutional buyers, and it is aware that the sale to it is being made in reliance on Rule 144A, or (b) is not a U.S. person and is acquiring the notes in an offshore transaction within the meaning of Regulation S;
- (ii) it acknowledged that the notes were offered in transactions not involving any public offering in the United States within the meaning of the Securities Act, and that the notes have not been and will not be registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (iii) unless it holds an interest in a Regulation S Global Note and either is a person located outside the United States or is not a U.S. person, it understands and agreed that if in the future it decides to resell, pledge or otherwise transfer the notes or any beneficial interests in the notes, it will do so, prior to the date which is one year after the later of the date of original issue and the last date on which the Government or an affiliate of the Government was the owner of such notes, only (a) to the Government or any affiliate thereof, (b) to a person whom the seller reasonably believes is a qualified institutional buyer within the meaning of Rule 144A under the Securities Act purchasing for its own account or for the account of a qualified institutional buyer in a transaction meeting the requirements of Rule 144A (c) in compliance with Rule 903 or Rule 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable securities laws of the states of the United States or any other applicable jurisdiction;
- (iv) it agreed to, and each subsequent holder is required to, notify any purchaser of the notes from it of the resale restrictions referred to in paragraph (iii) above, if then applicable;
- (v) it understands and agreed that notes initially offered within the United States to qualified institutional buyers are represented by one or more Restricted 144A Global Notes and that notes offered outside the United States in reliance on Regulation S are represented by Regulation S Global Notes;
- (vi) it understands that the Restricted 144A Global Notes bear a legend to the following effect unless otherwise agreed to by the Government:

“THIS SECURITY HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY IN ANY JURISDICTION, AND, ACCORDINGLY, MAY NOT BE OFFERED, SOLD OR PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS

EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE HOLDER (A) REPRESENTS THAT IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) PURCHASING THE NOTES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS, (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THIS SECURITY EXCEPT IN ACCORDANCE WITH THE FISCAL AGENCY AGREEMENT AND, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE DATE OF ORIGINAL ISSUE AND THE LAST DATE ON WHICH THE ISSUER OR AN AFFILIATE OF THE ISSUER WAS THE OWNER OF SUCH NOTES, ONLY, (1) TO THE COMMONWEALTH OF THE BAHAMAS OR ANY AFFILIATE THEREOF, (2) TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND, IN EACH CASE, IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.”; and

- (vii) it acknowledged that the Government and the initial purchasers and others relied upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agreed that if any of such acknowledgments, representations or warranties deemed to have been made by virtue of its purchase of notes are no longer accurate, it shall promptly notify the Government; and if it acquired any notes as a fiduciary or agent for one or more accounts, it represented that it had sole investment discretion with respect to each such account and that it had full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

The one-year resale restriction period referred to in the above legend may be extended, in our discretion, in the event of one or more issuances of additional notes, as described under “Description of the Notes—Further Issuances.” The above legend (including the restrictions on resale specified thereon) may be removed solely in our discretion and at our direction.

For further discussion of the requirements under the Fiscal Agency Agreement to effect exchanges or transfer of interests in Global Notes, see “Description of the Notes—Form, Denomination, Book-Entry Procedures and Transfer.”

ENFORCEMENT OF CIVIL LIABILITIES

It may be difficult for investors to obtain or realize upon judgments of courts in the United States against us. The Bahamas is a foreign sovereign government, generally immune from lawsuits and from the enforcement of judgments under United States law. Foreign sovereign governments, however, may waive this immunity and limited exceptions to this immunity are set forth in the U.S. Foreign Sovereign Immunities Act of 1976, as amended, or the "Immunities Act." In addition, substantially all of our assets are located outside of the United States, and all of our representatives and certain other parties named herein reside outside the United States and substantially all of the assets of such persons are located outside the United States.

Except as provided below, to the extent that The Bahamas or any of its assets may have, or may hereafter become entitled to or have attributed to it (whether or not claimed), any right of immunity, on the grounds of sovereignty (including under the Immunities Act) or otherwise, from any action, suit or proceeding, from setoff or counterclaim, from the jurisdiction of any court, from service of process upon it or any agent, from attachment upon or in aid of execution of judgment or from execution of judgment or other legal process or proceeding for the giving of any relief or for the enforcement of judgments, whether in the United States, The Bahamas or elsewhere, The Bahamas will, to the fullest extent permitted by applicable law, waive and agree not to assert any such immunity for itself, its property, assets or revenues, wherever located with respect to its obligations, liabilities or any other matter under or arising out of or in connection with the Fiscal Agency Agreement and the notes. However, The Bahamas will reserve the right to plead sovereign immunity under the Immunities Act with respect to actions brought against it under United States federal securities laws or any state securities laws. In the absence of a waiver of immunity by The Bahamas with respect to such actions, it would not be possible to obtain a U.S. judgment in such an action unless a court were to determine that The Bahamas is not entitled to sovereign immunity under the Immunities Act with respect to that action. Moreover, you may not be able to enforce a judgment obtained under the Immunities Act against The Bahamas's property located in the United States except under the limited circumstances specified in the Immunities Act. As a result, holders of the notes may be required to pursue such claims against us in The Bahamas and under Bahamian law.

The Government has agreed that any legal suit, action or proceeding arising out of or relating to the notes may be instituted by the note holders in any U.S. federal or New York state court of competent jurisdiction located in the Borough of Manhattan, The City of New York, New York, and will waive, to the fullest extent that it may effectively do so under applicable U.S. law, any objection to venue and any right to assert a defense of an inconvenient forum in response to any such legal suit, action or proceeding. Any process or other legal summons in connection with any such action may be served upon the Consul General of the Commonwealth of The Bahamas, at his or her offices at 231 East 46th Street, New York, New York 10017, acting as agent for service of process for The Bahamas. The Government will irrevocably waive and agree not to plead, to the fullest extent that it may effectively do so under applicable law, any immunity (including sovereign immunity) from the jurisdiction of any such federal or New York state court of competent jurisdiction located in the Borough of Manhattan, The City of New York, New York, to which it might otherwise be entitled in any such suit, action or proceeding arising out of or based upon the notes, except for immunity from execution and attachment as set forth in Section 19(4) of the Crown Proceedings Act (discussed below). Notwithstanding anything to the contrary, the Government will not consent to service or waive sovereign immunity with respect to actions brought against it under U.S. federal securities laws or any state securities laws. The Government has waived any immunity that it may claim under the Immunities Act, except as set forth above in this paragraph.

The Government will irrevocably waive, to the fullest extent permitted by law, any requirement or other provision of law, rule, regulation or practice, which requires or otherwise establishes as a condition to the institution, prosecution or completion of any action or proceeding (including appeals) arising out of or relating to the notes, the posting of any bond or the furnishing, directly or indirectly, of any other security.

Section 19(4) of the Crown Proceedings Act provides that no execution or attachment or process in the nature thereof shall be issued out of any court in The Bahamas for enforcing payment by the Government of any money or costs, and no person shall be individually liable under any order for the payment by the Government of any money or costs. The Crown Proceedings Act also provides that, where in any proceedings by or against the Government any order (including an order for costs) is made by any court in The Bahamas in favor of any person against the Government, the proper officer of the court shall, on an application made by or on behalf of that person

at any time after the expiration of 21 days from the date of the order or, in the case in which the order provides for the payment of costs and such costs are required to be taxed, at any time after the taxing of costs, whichever is later, issue a certificate to such person, a copy of which may be served upon the Attorney General of The Bahamas. If the order provides for the payment of money or costs, the Minister of Finance of The Bahamas shall pay the amount due to such person.

Judgments of a foreign court against the Government where the Government has not appeared in the relevant proceedings or has unsuccessfully claimed immunity in such proceedings, may not be enforceable in the courts of The Bahamas on the grounds of public policy.

The Bahamas has been advised by its Bahamian counsel that final and conclusive judgments against The Bahamas for the payment of a sum of money rendered by a U.S. federal or New York State court, including in respect of civil liabilities predicated upon applicable securities laws, may be enforced in The Bahamas against The Bahamas and its respective representatives and certain others named herein without reconsideration of the merits, *provided* that:

- such court had proper jurisdiction under Bahamian conflict of law rules;
- the judgment is for a debt or definite sum of money other than a sum payable in respect of taxes or charges of a like nature or in respect of a fine or penalty;
- such court did not contravene the rules of natural justice of The Bahamas;
- such judgment was not obtained by fraud on the part of the party in whose favour the judgment was given or of the court pronouncing it;
- the enforcement of such judgment would not be contrary to the public policy of The Bahamas;
- the correct procedures under the laws of The Bahamas are duly complied with;
- such judgment is not inconsistent with a prior Bahamian judgment in respect of the same matter; and
- enforcement proceedings are instituted within six years after the date of such judgment.

Upon a determination by a Bahamian judge that such foreign judgment has satisfied these criteria, the courts of The Bahamas would recognize such foreign judgment as a valid judgment, and permit the same to found the basis of a fresh action in The Bahamas and should give a judgment based thereon without there being a re-trial or reconsideration of the merits of the case.

TAXATION

Certain Bahamian Tax Consequences

The following is a general description of certain tax laws of The Bahamas relating to the notes and does not purport to be a comprehensive description of the tax treatment of the notes. Prospective purchasers should consult their tax advisers as to the tax laws and the specific tax consequences of acquiring, holding and disposing of the notes.

Under existing laws and regulations of The Bahamas, payments by The Bahamas of principal of and interest on the notes to a nonresident of The Bahamas will not be subject to taxation in The Bahamas and no withholding for any Bahamian tax will be required on any such payments to any such nonresident holders of the notes. There is no income tax under Bahamian law and, accordingly, a holder of notes will not be subject to any Bahamian income tax in respect of any payment of principal or interest on the notes, or in respect of any gain on disposition of the notes.

In the event of the imposition of such withholding taxes or duties, The Bahamas has undertaken to make payments of Additional Amounts as described under “Description of the Notes—Additional Amounts.”

Purchasers of notes may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase.

Certain United States Federal Income Tax Consequences

The following discussion summarizes the material U.S. federal income tax consequences of the acquisition, ownership and disposition of the notes. The discussion is based upon provisions of the U.S. Internal Revenue Code of 1986, as amended, or the “Code,” its legislative history, judicial authority, current administrative rulings and practice, and existing and proposed Treasury Regulations, all as in effect and existing on January 13, 2014. Legislative, judicial or administrative changes or interpretations may be forthcoming that could alter or modify the validity of the statements and conclusions set forth below. Any such changes or interpretations may be retroactive, so as to result in U.S. federal income tax consequences different from those summarized below, and could adversely affect a holder of the notes. Except as otherwise described herein, this discussion applies only to notes held as capital assets (as defined in Section 1221 of the Code) by a person who is an initial holder purchasing notes pursuant to this offering at the initial offering price. This discussion does not purport to deal with all aspects of U.S. federal income taxation that might be relevant to particular holders in light of their personal circumstances or status, nor does it discuss the U.S. federal income tax consequences to certain types of holders subject to special treatment under the U.S. federal income tax laws, such as certain financial institutions, insurance companies, real estate investment trusts, regulated investment companies, dealers or traders in securities or foreign currency, tax-exempt organizations, persons subject to alternative minimum tax, persons that hold notes that are a hedge against, or that are hedged against, currency risk or that are part of an integrated investment (including a straddle) or as part of a conversion or repurchase transaction, persons whose functional currency is not the U.S. dollar or partnerships or other entities classified as partnerships for U.S. federal income tax purposes. Moreover, the effect of any applicable state, local or non-U.S. tax laws, the Medicare tax on investment income or any U.S. federal tax laws other than with respect to income taxation, is not discussed.

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

For purposes of this discussion, a “U.S. Holder” is a beneficial owner of notes that is, for U.S. federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation (or other entity classified as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source or (iv) a trust the administration of which is subject to the primary supervision of a court within the United States if one or more U.S. persons have the authority to control all substantial decisions of the trust. For purposes of this discussion, a “non-U.S. Holder” is a beneficial owner of notes, other than a partnership (or other entity classified as a partnership for U.S. federal income tax purposes), that is not a U.S. Holder. The U.S. federal income tax treatment of a partner in a partnership (or other entity classified as a partnership for U.S. federal income tax purposes) that holds notes generally will depend on such partner’s particular circumstances and on the activities of the partnership. Partners in such partnerships should consult their own tax advisers.

U.S. Holders

Payments of Interest. Interest payments on the notes will be taxable as ordinary interest income to a U.S. Holder when received or accrued in accordance with such holder’s regular method of accounting for U.S. federal income tax purposes, and such income will include any tax withheld from interest payments notwithstanding that such withheld amount is not in fact received by such U.S. Holder. A U.S. Holder will also be required to include in income any Additional Amounts paid or accrued (in accordance with such method of accounting) with respect to the notes. Interest income on a note generally will constitute foreign source income and, depending on the U.S. Holder’s circumstances, generally will be considered “passive” or “general” income, which, in either case, are treated separately from other types of income in computing the foreign tax credit allowable to U.S. Holders under U.S. federal income tax laws. If any foreign income taxes are imposed in respect of payments on the notes, the U.S. Holder may be eligible, subject to a number of complex limitations, for a deduction or a foreign tax credit. Investors are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

Sale, Redemption or Other Disposition. The sale, exchange, redemption or other disposition of a note will be a taxable event for U.S. federal income tax purposes. In such event, a U.S. Holder will recognize taxable gain or loss equal to the difference, if any, between (i) the amount of cash plus the fair market value of any property received upon such sale, exchange, redemption or other disposition (except to the extent that such cash or property is attributable to accrued interest, which amount will be taxable as ordinary income to the extent not previously included in gross income) and (ii) the U.S. Holder’s tax basis therein. A U.S. Holder’s tax basis in a note generally will be equal to the purchase price paid by such U.S. Holder for such note. Such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the note will have been held by the U.S. Holder for more than one year at the time of such sale, exchange, redemption or other disposition. Long-term capital gains may be taxed at a lower rate than ordinary income for certain non-corporate U.S. Holders (including individuals). The ability of a U.S. Holder to deduct a capital loss is subject to limitations under the Code.

Gain or loss realized by a U.S. Holder on the sale, exchange, redemption or other disposition of a note will generally be treated as U.S. source gain or loss for U.S. foreign tax credit purposes.

Foreign Financial Asset Reporting. Certain U.S. Holders are subject to reporting requirements on their ownership of certain foreign financial assets, including debt of foreign entities, if the aggregate value of all of these assets exceeds U.S.\$50,000 at the end of the taxable year (or U.S.\$75,000 on any day during the taxable year). The notes are expected to constitute foreign financial assets subjects to these requirements unless the notes are held in an account at a financial institution. U.S. Holders should consult their tax advisors regarding the application of these reporting requirements to their ownership of the notes.

Non-U.S. Holders

A non-U.S. Holder should not be subject to U.S. federal income tax with respect to the receipt of interest on the notes, or the sale or other disposition of notes unless (i) the interest or gain is treated as effectively connected with the conduct by such holder of a trade or business in the United States (and, if an income tax treaty applies, the interest or gain is attributable to a permanent establishment maintained by the non-U.S. Holder in the United States),

or (ii) in the case of gains derived by an individual, such individual is present in the United States for 183 days or more in the taxable year and certain other conditions are met. If a non-U.S. holder is described in (i) above, it will be subject to tax on the interest or gain in the same general manner as if the non-U.S. holder were a U.S. holder, unless an applicable income tax treaty provides otherwise, and if a non-U.S. holder is a foreign corporation it may be subject to the branch profits tax equal to 30% (or lesser rate as may be specified under an applicable income tax treaty) on the effectively connected earnings and profits (subject to certain adjustments). If a non-U.S. holder is an individual described in (ii) above, such holder will be subject to a flat 30% tax (subject to reductions under an applicable income tax treaty) on the gain, which may be offset by U.S. source capital losses, even though such holder is not considered a resident of the United States.

Information Reporting and Backup Withholding

The “backup” withholding and information reporting requirements may apply to certain payments of principal and interest on a note and to certain payments of proceeds of the sale or other disposition of a note. Backup withholding will apply if the holder fails to furnish its taxpayer identification number (social security number or employer identification number), to certify that such holder is not subject to backup withholding, or to otherwise comply with the applicable requirements of the backup withholding rules. Certain holders (including, among others, all corporations) are not subject to the backup withholding and information reporting requirements. Under current Treasury Regulations, backup withholding and information reporting generally will not apply to payments made to a holder of a note who has provided the required certification under penalties of perjury that it is not a U.S. Holder or has otherwise established an exemption.

Any amounts withheld under the backup withholding rules from a payment to a holder may be claimed as a credit against such holder’s U.S. federal income tax liability provided the required information is furnished to the IRS.

PLAN OF DISTRIBUTION

J.P. Morgan Securities LLC and RBC Capital Markets, LLC acted as the initial purchasers of the notes. Subject to the terms and conditions stated in the purchase agreement, the initial purchasers purchased the principal amount of notes set forth opposite their names below:

Initial Purchasers	Principal Amount of Notes
J.P. Morgan Securities LLC.....	U.S.\$150,000,000
RBC Capital Markets, LLC	U.S.\$150,000,000
Total	U.S.\$300,000,000

The obligations of the initial purchasers under the purchase agreement were several and not joint. The initial purchasers were entitled to offer and sell the notes through certain of their affiliates. The purchase agreement provided that if an initial purchaser failed to purchase its share of the notes and that failure constituted a default under the purchase agreement, the remaining initial purchaser would have been obligated severally to take up and pay for the notes which the defaulting initial purchaser agreed but failed to purchase; provided, however, that if the aggregate principal amount of the notes that the defaulting initial purchaser failed to purchase exceeded 10% of the aggregate principal amount of the notes offered by the Government, the remaining initial purchaser had the right to purchase all of the notes, but was not obligated to purchase any of the notes. If the nondefaulting initial purchaser did not purchase all of the notes, the purchase agreement would terminate without liability to the nondefaulting initial purchaser.

The initial offering price is set forth on the cover page of these Listing Particulars. The initial purchasers were entitled to offer the notes to selected dealers at the initial offering price set forth on the cover page of these Listing Particulars less a selling concession. After the notes were released for sale, the initial purchasers were entitled to change the offering price and other selling terms.

In the purchase agreement, the Government agreed that the Government would indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act, or contribute to payments that the initial purchasers may be required to make in respect of those liabilities.

The notes have not been and will not be registered under the Securities Act or the securities laws of any state of the United States or any other jurisdiction. Accordingly, the notes are subject to restrictions on resale and transfer as described under “Notice to Investors.”

In the purchase agreement, the initial purchasers represented, warranted and agreed that:

- the notes would not be offered or sold within the United States or to U.S. persons except pursuant to an exemption from the registration requirements of the Securities Act or in transactions not subject to those registration requirements; and
- during the initial distribution of the notes and otherwise until 40 days after the later of the commencement of this offering and the closing of this offering, they would offer or sell notes:
 - inside the United States only to persons whom they reasonably believed to be qualified institutional buyers in transactions pursuant to, and in accordance with, Rule 144A; or
 - outside the United States in accordance with Regulation S.

The notes constituted a new class of securities with no established trading market. Application has been made to list the notes on the official list of the Luxembourg Stock Exchange and to trading on the Euro MTF Market. However, the initial purchasers cannot assure you that the listing applications will be approved. The initial purchasers cannot assure you that the prices at which the notes will sell in the market after this offering will not be lower than the offering price or that an active trading market for the notes will develop and continue after this offering. The initial purchasers may make a market in the notes. However, the initial purchasers are not obligated to

do so and may discontinue any market making activities with respect to the notes at any time without notice. Accordingly, the initial purchasers cannot assure you as to the liquidity of or the trading market for the notes.

In connection with the offering, the initial purchasers were entitled to engage in overallotment, stabilizing transactions and covering transactions. Overallotment involves sales in excess of the offering size, which creates a short position for such initial purchasers. Covering transactions involve purchases of notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions involve bids to purchase notes so long as the stabilizing bids do not exceed a specified maximum. Any of these transactions may have had the effect of preventing or retarding a decline in the market price of the notes. These transactions may also have caused the price of the notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions.

The initial purchasers were entitled to conduct these transactions in the over-the-counter market or otherwise. If the initial purchasers were to commence any of these transactions, they were entitled to discontinue them at any time in their sole discretion.

The initial purchasers and certain of their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financial and brokerage activities. In particular, RBC Capital Markets, LLC acted as initial purchaser in respect of the offering of the notes. RBC Royal Bank (Bahamas) Limited (“RBC Limited”), an affiliate of RBC Capital Markets, LLC, was a lender under a credit facility dated as of November 15, 2013 (the “Credit Agreement”) pursuant to which we borrowed U.S.\$50 million. Accordingly, RBC Limited received a portion of the proceeds of this offering that were used to repay borrowings under the Credit Agreement. For further details regarding the repayment of the loan due to RBC Capital Markets, LLC, see “Use of Proceeds”.

Selling Restrictions

Neither we nor the initial purchasers made an offer to sell, or sought offers to buy, the notes in any jurisdiction where the offer and sale is not permitted. You must comply with all applicable laws and regulations in force in any jurisdiction in which you purchase, offer or sell the notes or possess or distribute these Listing Particulars, and you must obtain any consent, approval or permission required for your purchase, offer or sale of the notes under the laws and regulations in force in any jurisdiction to which you are subject or in which you make such purchases, offers or sales. Neither we nor the initial purchasers will have any responsibility therefor.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive, each a “Relevant Member State,” with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, or the “Relevant Implementation Date,” no offer of notes may be made to the public in that Relevant Member State other than (1) to any legal entity which is a qualified investor as defined in the Prospectus Directive; (2) to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive subject to obtaining the prior consent of the representative or representatives nominated by us for any such offer; or (3) in any other circumstances falling within Article 3(2) of the Prospectus Directive; provided that no such offer of notes shall require us or any representative to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive. For the purposes of the foregoing provision, the expression an “offer of notes to the public” in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State; “Prospectus Directive” means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State) and includes any relevant implementing measure in the Relevant Member State; and “2010 PD Amending Directive” means Directive 2010/73/EU; and

United Kingdom

These Listing Particulars are only being distributed to, and are only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that are also (1) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or the Order, or (2) high net worth entities falling within Article 49(2)(a) to (d) of the Order or (3) all other persons to whom it may lawfully be communicated (all such persons together being referred to as “relevant persons”). Recipients of these Listing Particulars are not permitted to transmit it to any other person. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents. Any investment or investment activity to which these Listing Particulars relates is available only to relevant persons and will be engaged in only with relevant persons. The notes were not offered to the public in the United Kingdom.

Chile

The notes will not be registered under Law 18,045, as amended, of Chile with the SVS and, accordingly, the notes cannot and will not be offered or sold to persons in Chile except in circumstances which have not resulted and will not result in a public offering under Chilean law, and in compliance with Norma de Carácter General (Rule) No. 336, dated June 27, 2012, issued by the SVS.

Hong Kong

The notes may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a “prospectus” within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Singapore

These Listing Particulars have not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, these Listing Particulars and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, or the “SFA”, (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for 6 months after that corporation or that trust has acquired the notes under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

Japan

The notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) and, accordingly, will not be offered or sold, directly or indirectly, in Japan, or for the benefit of any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person, except in compliance with all applicable laws, regulations and ministerial guidelines promulgated by relevant Japanese governmental or regulatory authorities in effect at the relevant time. For the purposes of this paragraph, “Japanese Person” means any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

Switzerland

The notes may not be and will not be publicly offered, distributed or redistributed on a professional basis in or from Switzerland, and neither these Listing Particulars nor any other solicitation for investments in the notes may be communicated or distributed in Switzerland in any way that could constitute a public offering within the meaning of Articles 1156 or 652a of the Swiss Code of Obligations or of Article 2 of the Federal Act on Investment Funds of March 18, 1994. These Listing Particulars may not be copied, reproduced, distributed or passed on to others without the initial purchasers’ prior written consent. These Listing Particulars are not a prospectus within the meaning of Articles 1156 and 652a of the Swiss Code of Obligations or a listing prospectus according to article 32 of the Listing Rules of the Swiss exchange and may not comply with the information standards required thereunder. We will not apply for a listing of our notes on any Swiss stock exchange or other Swiss regulated market, and this offering circular may not comply with the information required under the relevant listing rules. The notes have not been and will not be registered with the Swiss Federal Banking Commission and have not been and will not be authorized under the Federal Act on Investment Funds of March 18, 1994. The investor protection afforded to acquirers of investment fund certificates by the Federal Act on Investment Funds of March 18, 1994 does not extend to acquirers of the notes.

Panama

The notes and the information contained in these Listing Particulars have not been and will not be registered with or approved by the Comisión Nacional de Valores de Panamá (Panamanian National Securities Commission) or the Bolsa de Valores de Panamá, S.A (Panamanian Stock Exchange). Accordingly, the notes cannot be offered or sold in Panama, except in transactions exempted from the registration requirements of the securities laws and regulations of Panama.

GENERAL INFORMATION

The Notes have been accepted for clearance and settlement through Euroclear and Clearstream. The Common Code for the Restricted 144A Global Notes is 101948471 and the Common Code for the Regulation S Global Notes is 101934888. The International Securities Identification Number, or ISIN, for the Restricted 144A Global Notes is US056732AH32, and the ISIN for the Regulation S Global Notes is USP06518AF40.

The legal authorizations for the issuance of the notes offered hereby are set forth in the resolution of the House of Assembly, dated June 18, 2013, which authorizes the Minister of Finance to borrow approximately \$465.8 million in the currency of the United States.

Copies of the Fiscal Agency Agreement (including the form of the note) will, for if and so long as the notes are listed on the Luxembourg Stock Exchange, be available for inspection during normal hours on any weekday (except Saturdays and public holidays) at the specified offices of the Paying Agent in Luxembourg.

OFFICIAL STATEMENTS

Information included herein which is identified as being derived from a publication of the Government or one of its agencies or instrumentalities is included herein on the authority of such publication as a public official document of the Government. All other information in these Listing Particulars is included as a public official statement made on the authority of the Ministry of Finance of the Government, in his official capacity as such.

LEGAL MATTERS

The validity of the notes and certain other legal matters relating to the issuance of the notes was passed upon for the Government by Hogan Lovells US LLP, U.S. counsel to the Government, and by the Office of the Attorney General of The Bahamas. Certain legal matters related to the offering was passed upon for the initial purchasers by Simpson Thacher & Bartlett LLP, U.S. counsel to the initial purchasers, and Higgs & Johnson, Bahamian counsel to the initial purchasers.

ISSUER

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U.S.\$300,000,000

The Commonwealth of The Bahamas

5.750% Notes due 2024



OFFERING MEMORANDUM

J.P. Morgan

RBC Capital Markets
