

LISTING PARTICULARS



**U.S.\$750,000,000**

**The Commonwealth of The Bahamas**

**6.000% Notes due 2028**

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The Commonwealth of The Bahamas is offering U.S.\$750,000,000 aggregate principal amount of its 6.000% Notes due 2028, that we refer to as the “notes.” The notes will bear interest at the rate of 6.000% per year. Interest on the notes is payable on May 21 and November 21 of each year, beginning on May 21, 2018. The notes will mature on November 21, 2028. The principal amount of the notes will be paid in three equal annual installments on November 21, 2026, November 21, 2027, and at maturity on November 21, 2028. 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 will be our direct, general, unsecured and unconditional obligations and will 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 will be backed by the full faith and credit of the Commonwealth of The Bahamas.

Application will be 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. This offering memorandum constitutes a prospectus according to Luxembourg law dated July 10, 2005 on Prospectuses for Securities, as amended.

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The notes have not and will not be 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 are being 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 8 of this offering memorandum.**

**Price: 100.00% plus accrued interest, if any, from November 21, 2017.**

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The initial purchasers expect to deliver 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 November 21, 2017.

**Deutsche Bank Securities**

**RBC Capital Markets**

November 27, 2017



**You should rely only on the information contained in this offering memorandum. We have not authorized anyone to provide you with different information. We are not, and the initial purchasers are not, making an offer of these securities in any state or jurisdiction where the offer is not permitted. You should not assume that the information contained in this offering memorandum is accurate as of any date other than the date on the front of this offering memorandum.**

Reference in this offering memorandum to “The Bahamas,” “the Commonwealth,” “the Government,” “we,” “us” and “our” refer to the Commonwealth of The Bahamas.

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Notwithstanding anything in this offering memorandum 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 this 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 have furnished the information contained in this offering memorandum. The initial purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum. Nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the initial purchasers as to the past or future. The initial purchasers have not independently verified any of the information contained herein (financial, legal or otherwise) and assume 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, completeness or adequacy of this offering memorandum. 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 this offering memorandum 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 this offering memorandum 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 this offering memorandum, 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 the date of this offering memorandum, the information contained in this offering memorandum 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 this offering memorandum.

Application will be 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.

This offering memorandum includes 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 this offering memorandum 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.

This offering memorandum contains 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 RESIDENTS OF THE BAHAMAS**

PURSUANT TO SECTION 92 OF THE *SECURITIES INDUSTRY ACT, 2011*, THIS OFFERING MEMORANDUM IS EXEMPT FROM THE REGISTRATION REQUIREMENTS SET OUT IN THE SAID ACT. ACCORDINGLY, THIS OFFERING MEMORANDUM HAS NOT BEEN APPROVED BY OR REGISTERED WITH THE SECURITIES COMMISSION OF THE BAHAMAS.

### **STATEMENT REGARDING FORWARD-LOOKING DISCLOSURE**

This offering memorandum includes 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 this offering memorandum, 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 this offering memorandum, including in conjunction with the forward-looking statements included in this offering memorandum, 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 this offering memorandum.

All of the forward-looking statements related to the Government made in this offering memorandum 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 this offering memorandum, 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 this offering memorandum 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 consists of the twelve months commencing July 1 and 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 this offering memorandum 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 by “(P)”. Except as otherwise noted in this offering memorandum, accounts for fiscal year 2011/2012 through 2013/2014 have been audited by the Auditor-General of the Commonwealth and accounts for fiscal years 2011/2012 through 2012/2013 have been submitted to Parliament. Therefore, except as otherwise noted in this offering memorandum, we are providing any revenue, expenditure and other financial information included in this offering memorandum for any fiscal year subsequent to fiscal year 2012/2013 on a provisional basis. Economic data included in this offering memorandum for the relevant calendar year is presented on a provisional basis.

The financial information of the Commonwealth included herein has been prepared in accordance with International Public Sector Accounting Standards and on a modified cash basis. Certain financial information is available on the Government’s website at [www.bahamas.gov.bs](http://www.bahamas.gov.bs) and the Central Bank of The Bahamas’ website at [www.centralbankbahamas.com](http://www.centralbankbahamas.com). The information provided on these websites is not part of, or incorporated by reference in, this offering memorandum.

Estimates of Gross Domestic Product, or “GDP,” and its components that are included in this offering memorandum, 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 this offering memorandum 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 New York County, State of 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 New York County, State of New York. The Government has 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 this offering memorandum.*

### 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 currently approximately 391,000, most of which is concentrated in New Providence (where 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 Free National Movement, the current ruling party, which holds a majority in parliament, and the Progressive Liberal Party, which was in office from May 2012 until May 2017. 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 more than half of total GDP and employment. Based on the results of a 2003 survey, tourism generates an estimated 50% of GDP and employs, directly or indirectly, over half of the workforce. In 2016, The Bahamas attracted approximately 6.3 million tourists, compared with the 6.1 million visitors in 2015 who spent in excess of \$2.5 billion.

More than 78% 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 predominantly of banks, including private banks, trust companies, insurance companies and investment funds) has also historically accounted for a significant percentage of GDP. The Bahamas has traditionally been an attractive jurisdiction for international financial services businesses because of its favorable tax regime, legislative environment, geographic location and sophisticated professional services. Over the years, the Government has enacted several measures 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 international financial services center. As of December 31, 2016, there were 248 bank and trust companies licensed in The Bahamas, compared to 249 as of December 31, 2015 and the Government estimates that the total asset base of offshore banks and trust companies was approximately \$175.7 billion as of December 31, 2016.

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, domestic output has stagnated. Specifically, following declines of 1.2% and 3.1% in 2014 and 2015, respectively, the Department of Statistics estimates that GDP grew marginally, by 0.2% in 2016 (in both real and nominal terms). The annual inflation rate in The Bahamas has averaged less than 1.0% 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 support relatively stable inflation.

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:



- progressing public sector reform, including the establishment of a one-stop shop, to create an efficient public service committed to improving the ease of doing business with the Government;
- promoting a more sustainable debt and deficit trajectory through judicious expenditure controls, the continuation of enhanced tax compliance initiatives, an improved budgeting process, greater efficiency and cost recovery among the state-owned enterprises, pension reform and anchoring fiscal discipline in fiscal responsibility legislation;
- promoting job creation, economic growth and poverty reduction through renewable energy and energy conservation initiatives, the creation of a knowledge-based economy, and upgrading and modernizing of the Family Island airports, docks and marinas;
- providing new business incentives to businesses that offer goods and services in the areas of renewable energy, culture, export, agriculture and fisheries, and manufacturing of authentic Bahamian souvenirs;
- reducing the cost of energy by modernizing the electricity generation, transmission and distribution infrastructure, and creating a renewable energy economy;
- amending the Business License Act to, for example, modify the method for calculating license fees to ensure that businesses are not unduly burdened;
- employing public-private partnerships to finance capital projects;
- supporting Bahamian investments in tandem with strategic foreign direct investments; and
- increasing investments in education, focusing on reforms in the areas of enabling information technology infrastructure, technical and vocational training initiatives and administrative policy reforms to ensure effectiveness and efficiency in the delivery of services.

The Bahamas' long-term foreign currency credit ratings are BB+ from Standard & Poor's ("S&P") and Baa3 from Moody's Investor Services ("Moody's").

**Selected Economical Financial Information**  
(in millions of Bahamian dollars, except percentages)

	For the Years Ended June 30,				Fiscal	Budget
	2013	2014 <sup>(p)</sup>	2015 <sup>(p)</sup>	2016 <sup>(p)</sup>	Year-to-Date May 31, 2017 <sup>(1)(p)</sup>	2017/2018
<b>Government Finance:</b>						
Revenue and grants.....	\$ 1,354.6	\$ 1,450.8	\$ 1,701.5	\$ 1,929.6	\$ 1,819.2	\$ 2,139.0
Expenditure <sup>(2)</sup> .....	\$ 1,900.8	\$ 1,930.8	\$ 2,083.6	\$ 2,240.0	\$ 2,104.5	\$ 2,460.4
Overall budget deficit .....	\$ (546.1)	\$ (480.0)	\$ (382.0)	\$ (310.4)	\$ (285.3)	\$ (321.3)
Overall budget deficit as a percentage of nominal GDP <sup>(3)(4)</sup> .....	(5.10)%	(4.46)%	(3.46)%	(2.76)%	n.a.	2.67%

	As of and for the Years Ended December 31,					As of and for the Six Months Ended
	2012	2013	2014 <sup>(p)</sup>	2015 <sup>(p)</sup>	2016 <sup>(p)</sup>	June 30, 2017
<b>The Economy:</b>						
Nominal GDP <sup>(5)(p)</sup> .....	\$ 10,720.5	\$ 10,677.2	\$ 10,843.8	\$ 11,240.0	\$ 11,261.8	n.a.
Increase(decrease) in nominal GDP <sup>(3)(p)</sup> .....	6.46%	(0.40)%	1.56%	3.65%	0.19%	n.a.
Annual inflation rate.....	0.70%	0.52%	1.18%	1.88%	(0.35)%	0.87%
Balance of payments <sup>(5)(p)</sup>						
Current account balance.....	\$ (1,438.9)	\$ (1,439.1)	\$ (1,885.2)	\$ (1,203.2)	\$ (1,177.7)	\$ (863.3)
Capital account balance.....	\$ 1,266.5	\$ 1,017.8	\$ 1,508.5	\$ 349.8	\$ 461.3	\$ 315.4
Foreign exchange reserves.....	\$ 810.2	\$ 741.6	\$ 787.8	\$ 811.9	\$ 904.0	\$ 959.7
Estimated increase (decrease) in real GDP <sup>(6)(p)</sup> .....	3.1%	(0.6)%	(1.2)%	(3.1)%	0.2%	n.a.

	As of and for the Years Ended December 31,					As of and for the Six Months Ended
	2012	2013 <sup>(p)</sup>	2014 <sup>(p)</sup>	2015 <sup>(p)</sup>	2016 <sup>(p)</sup>	June 30, 2017
<b>National Debt:</b>						
National debt .....	\$ 5,006.9	\$ 5,590.3	\$ 6,284.7	\$ 6,659.90	\$ 7,044.7	\$ 7,262.9
National debt as a percentage of nominal GDP <sup>(4)</sup> .....	46.70%	52.36%	57.96%	59.25%	62.55%	61.60%
Foreign currency public sector debt <sup>(7)</sup> .....	\$ 1,824.2	\$ 2,139.7	\$ 2,453.0	\$ 2,574.0	\$ 2,646.8	\$ 2,641.3
Foreign currency public sector debt as a percentage of nominal GDP <sup>(4)</sup> .....	17.67%	20.04%	22.62%	22.90%	23.50%	22.40%
Foreign currency public sector debt service <sup>(8)</sup> .....	\$ 203.9	\$ 176.9	\$ 569.8	\$ 184.6	\$ 337.4	\$ 120.4
Foreign currency public sector debt service ratio <sup>(9)</sup> .....	5.5%	4.9%	16.0%	5.4%	9.9%	6.4%

(1) According to estimates from the Ministry of Finance, the deficit for the full fiscal year 2016/2017 is expected to be approximately \$700.0 million. See "Government Finance—Fiscal Year 2017/2018 Budget."

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

(3) Represent Department of Statistics estimates for 2012-2016 and IMF estimates for 2017.

(4) Based on projections for nominal GDP relating to calendar years 2017 and 2018 indicated by the International Monetary Fund. The projections relating to the nominal GDP for fiscal years 2016/2017 and 2017/2018 are estimated by adding the nominal GDP relating to the relevant calendar years and dividing the result by two.

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

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

(7) Includes internal and external foreign currency debt of the Government state owned enterprises (whether or not guaranteed by the Government).

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

(9) 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 Summaries.

**THE OFFERING**

Issuer .....	The Commonwealth of The Bahamas.
The Notes.....	U.S.\$750,000,000 6.000% Notes due 2028.
The Offering .....	The notes are being 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.....	100.00% of the principal amount of the notes.
Original Issue Date .....	November 21, 2017
Maturity Date.....	The notes will mature on November 21, 2028.
Amortization.....	The Government will pay the principal amount of the notes in three equal annual installments on November 21, 2026, November 21, 2027, and at maturity on November 21, 2028.
Interest Payment Dates .....	The notes will bear interest from the date of original issuance payable semiannually in arrears on May 21 and November 21 of each year, commencing on May 21, 2018.
Status of Notes.....	The notes will be direct, general, unsecured and unconditional obligations of the Government and will 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 will be 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>Prior to August 21, 2028 (three months prior to the maturity date of the notes), the notes will be 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"> <li>• 100% of the principal amount of the notes to be redeemed; or</li> <li>• 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.</li> </ul>

At any time on or after August 21, 2028 (three months prior to the maturity date of the notes), the notes will be redeemable at any time at the option of the Government, in whole or in part, at a redemption price equal to 100% of the principal amount of the notes to be redeemed.

In either case, accrued interest, if any, will be paid to the date of redemption.

Negative Pledge and Certain Covenants.....	The notes contain a negative pledge covenant and certain affirmative covenants. See “Description of the Notes—Negative Pledge” and “Description of the Notes—Covenants.”
Use of Proceeds .....	The Government intends to use the net proceeds from the sale of the notes to finance general development in The Bahamas in fiscal year 2017/2018 and to reduce its outstanding indebtedness under its (i) \$100 million demand operating facility 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, (ii) U.S.\$200 million loan from Credit Suisse AG, Cayman Islands Branch (the proceeds of which were utilized by the Government for such general development), (iii) U.S.\$250 million loan from Deutsche Bank AG, London Branch (approximately U.S.\$90 million of which was utilized by the Government to meet certain obligations under derivatives transactions with Deutsche Bank AG, London Branch and the remainder of which was utilized by the Government for general purposes), which is an affiliate of one of the initial purchasers for this offering, and (iv) \$200 million in Treasury bills issued by the Government in June 2017 (the proceeds of which were utilized by the Government for such general development). See “Use of Proceeds.”
Withholding Taxes .....	Payments 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 will be 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 will be 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 will be 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 will credit portions of the principal amount of the Global Notes to the accounts of persons who have DTC accounts, or “DTC participants,” designated by the initial purchasers (as defined herein), and ownership in such interests in the Global Notes will be shown on, and the transfer of ownership thereof 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 the Global Notes). Except as described in this offering memorandum, 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 will be governed by and construed in accordance with the laws of the State of New York, United States of America.
Listing.....	Application will be 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 8 of this offering memorandum for a discussion of factors you should carefully consider before deciding to invest in the notes.

CUSIP, ISIN and Common Code ..... For the Restricted 144A Global Note, the CUSIP number is 056732AJ9, the ISIN number is US056732AJ97 and the Common Code is 172523501.

For the Regulation S Global Note, the CUSIP number is P06518AG2, the ISIN number is USP06518AG23 and the Common Code is 172197990.

## 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 this offering memorandum 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 generally increased 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 international banking business in The Bahamas has declined marginally in recent years. The Bahamas has traditionally been an attractive location for international 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 and some of the Family Islands; and more recently, in 2015 and 2016, two major hurricanes (Joaquin and Matthew) caused an estimated \$800 million in damage to New Providence and various Family Islands. 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. For example, in 2017, Hurricane Irma did not cause any significant damage to the major economic sectors

in The Bahamas, but it caused extensive damage to certain Caribbean countries and had a negative impact on tourism in the region.

Further, as a Small Island Developing State, The Bahamas is among the most vulnerable globally to the effects of climate change. The Bahamas has responded to the impacts of climate change through a variety of methods and policies. In particular, a Family Island community has been relocated from the shoreline; steps have been taken to strengthen coastal defenses; building codes have been strengthened to provide more robust mitigation against wind damage; and adaptation measures to the loss of major freshwater lens (i.e., bodies of fresh water typically formed beneath permeable limestone islands) included the use of reverse osmosis to provide all citizens with access to potable water across the country. Additionally, The Bahamas National Energy Policy 2013-2033 (“National Energy Policy”) seeks to reduce dependence on fossil fuels by introducing a minimum of 30% renewable energy to the national electricity grids by 2030. All achievements have derived from the use of national resources. As the environment changes with the changes in the global climate, The Bahamas’ resolve to adapt and improve remains resolute. We cannot assure you that any of these measures or policies will successfully mitigate the risks associated with climate change.

***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 recovered modestly from the most recent global economic downturn and, in particular, from the 2008 financial crisis in the United States. For example, The Bahamas’ nominal GDP decreased in 2008 and 2009, but increased steadily in each of the three fiscal years ended December 31, 2010, 2011 and 2012. Between 2013 and 2015, the economy narrowed due to weakened fundamentals in key source markets, but rebounded with a modest 0.2% expansion in 2016. 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 fiscal deficit as the Government continues to attempt to maintain the same quality of public services, despite declining revenues. During 2016 and 2017, several factors, such as Hurricane Matthew, which disrupted revenue flows and created increased spending requirements, caused a significant increase of the overall deficit to nearly \$700 million from the original \$100 million budgeted, which has contributed to the increase of the national debt. The Government has announced a series of expenditure control and enhanced revenue compliance measures to achieve greater fiscal and debt sustainability. See “Government Finance—Fiscal Year 2017/2018 Budget”. We cannot assure you that such measures will be successful in decreasing such deficit, or the national debt, or whether such measures will have a negative effect on the Bahamian economy.

Historically, The Bahamas’ external 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 been growing for several years, if the recovery of the Bahamian economy continues to lag behind the U.S., 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. 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 other 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 will be 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 will contain provisions that permit The Bahamas to amend the payment terms without the consent of all holders.***

The notes will 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—Meetings of Note Holders; Modification and Waiver.”

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

The Fiscal Agency Agreement governing the notes will not prohibit the Government from incurring additional debt and will allow, subject to certain limitations, the incurrence of secured debt. In addition, the Fiscal Agency Agreement will 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 are a new issue of securities for which there is 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 will be 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 have advised us that they 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. 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 intends to use the net proceeds from the sale of the notes to finance general development in The Bahamas in fiscal year 2017/2018 and to reduce its outstanding indebtedness under the following obligations:

- \$100 million demand operating facility 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 facility bears interest at a rate per annum equal to Nassau Prime plus 0.5%, with a stated maturity of the earliest of (a) the issuance of a U.S. dollar bond or (b) April 30, 2018.
- U.S.\$200 million loan from Credit Suisse AG, Cayman Islands Branch (the proceeds of which were utilized by the Government for such general development), which bears interest at a rate per annum equal to LIBOR plus 3.75%, with a stated maturity date of October 5, 2019.
- U.S.\$250 million loan from Deutsche Bank AG, London Branch (approximately U.S.\$90 million of which was utilized by the Government to meet certain obligations under derivatives transactions with Deutsche Bank AG, London Branch and the remainder of which was utilized by the Government for general purposes), which is an affiliate of one of the initial purchasers for this offering. See “Plan of Distribution.” The loan bears interest at a rate per annum equal to 6-month LIBOR plus 3%, with a stated maturity date of 365 days after the closing date of September 14, 2017.
- \$200 million in Treasury bills issued by the Government in June 2017 (the proceeds of which were utilized by the Government for such general development), with rollover maturities ranging from 31 to 120 days, and which currently bear interest at a rate per annum ranging from 1.7972% to 1.9000%.

## **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 populated islands in The Bahamas are New Providence, with 246,329 residents, or 70.9% 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 93.8% 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 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. In recent years, the hurricane season has appeared to be more active, with two major storms impacting the country in 2015 (Hurricane Joaquin) and 2016 (Hurricane Matthew), which caused significant damage to several islands, and another hurricane in 2017 (Irma) resulting in damage to certain Caribbean countries, but it did not cause any significant damage to the major economic sectors in The Bahamas. Nonetheless, prior to Hurricane Wilma in 2005, which caused significant damage on Grand Bahama 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 our tourism industry. 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 39 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 10, 2017, the House of Assembly is now comprised of 35 members from the Free National Movement, or the “FNM,” and four members from the Progressive Liberal Party, or the “PLP.” The Honorable Dr. Hubert Alexander Minnis, who is leader of the FNM, is the Prime Minister. The Leader of the Opposition is the Honorable Philip “Brave” Davis, 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 19 other ministers (the “Cabinet”). 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 11% 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 63,000 students attending school at the primary and secondary levels at the end of 2016. The country boasts an adult literacy rate that was estimated to exceed 95% in 2007.

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. In fiscal year 2015/2016, the Ministry of Education operated 168 public schools, while private schools account for 77 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. The University of The Bahamas, which was chartered on November 10, 2016 and had its genesis in the College of The Bahamas, is the Government's academic tertiary education institution. The Bahamas Technical and Vocational Institute offers certificate, diploma and associates of science degree programs to students on New Providence, Grand Bahama and Eleuthera. Over the years, a number of non-Bahamian colleges have offered higher education programs in The Bahamas.

### **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 Urban 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 ("WTO"), 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 0.625% to 1.0% (subject to a maximum of \$50,000) for owner-occupied property, 0.75% to 2% for commercial property and 0.625% for residential property (with a minimum of \$300). In January 2015, the Government introduced value added tax ("VAT") at a rate of 7.5%. In addition, there is a stamp tax of 7.0% on goods imported for business use. VAT and taxes on international trade are the dominant sources of government revenue. Specifically, in fiscal year 2015/2016, The Bahamas raised approximately 32.0% of its revenues from VAT and 26.0% from trade tariffs. The average rate of duty charges on imports is estimated between 30% and 35%, 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 an extensive network of well-developed roads and highways, with 800 miles of road on New Providence reported in 2002. 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 two international airports (Lynden Pindling International Airport in New Providence and Grand Bahama International Airport in Grand Bahama), together with six Tier I airports on various Family Islands 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, mini-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 more than half of total GDP and employment. Based on the results of a 2003 survey, tourism generates an estimated 50% of GDP and employs, directly or indirectly, over half of the workforce. In 2016, The Bahamas attracted approximately 6.3 million visitors, over 75% of which were from the United States. In 2015, the 6.1 million visitors spent in excess of \$2.5 billion in the country. 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 predominantly of banks, including private banks, and trust companies, insurance companies and investment funds) has also historically accounted for a significant percentage of GDP. The Bahamas has traditionally been an attractive jurisdiction for international financial services businesses because of its favorable tax regime, legislative environment, and supportive professional infrastructure. Over the years, various legislative and regulatory initiatives were implemented to strengthen the regulatory and supervisory regime—aimed at bringing the financial sector into compliance with international “best practices” standards and enhancing the attractiveness of The Bahamas as an international financial services center. The Government sector also plays a significant role in the Bahamian economy.

The following table sets forth summary GDP information for the years ended December 31, 2012 through December 31, 2016.

	Years Ended December 31,				
	2012	2013	2014	2015	2016
Nominal GDP (in millions of \$) <sup>(p)</sup> .....	\$10,720.50	\$10,677.20	\$10,843.80	\$11,240.00	\$11,261.80
Increase (decrease) in nominal GDP (%) <sup>(1)(p)</sup> .....	6.46%	(0.40)%	1.56%	3.65%	0.19%
Nominal GDP per capita (in thousands of \$) <sup>(2)(p)</sup> .....	29.78	29.25	29.39	30.05	29.79
Population (in thousands) <sup>(2)</sup> .....	360	365	369	374	378
Estimated increase (decrease) in real GDP (%) <sup>(1)(p)</sup> .....	3.09%	(0.57)%	(1.24)%	(3.07)%	0.17%

(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 a small 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.

The Bahamian economy continues to recover 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 0.2% in 2016, compared to declines of 1.2% and 3.1% in 2014 and 2015, respectively. The modest expansion in 2016 was attributable primarily to growth in the construction sector, which led to reduced unemployment and higher consumption. The Government currently has approximately \$10.8 billion in foreign direct investment projects approved—the bulk of which have commenced, generating new jobs, taxes and directly affecting GDP growth. In the fiscal sector, the Government introduced VAT in January 2015, as part of its fiscal consolidation plan, to broaden the tax base and improve fiscal indicators. Although recent hurricanes have necessitated unplanned



spending, the Government continues to pursue measures designed to enhance revenue and constrain expenditure growth. As such, the two main economic goals of the Government in the medium-term are as follows:

- eliminate the Government finance statistics deficit by fiscal year 2019/2020; and
- reduce the debt-to-GDP ratio to more sustainable levels.

The Government's fiscal year 2017/2018 budget focuses on improving the fiscal situation, with measures aimed at curtailing expenditure growth and enhancing revenue compliance, while stimulating the economy and creating jobs. Accordingly, the Government expressed its intent to undertake a careful and in-depth review of all major expenditure programs to determine appropriateness, and to enhance transparency and accountability with fiscal rules to be anchored in fiscal responsibility legislation. The Government also committed to reform unprofitable state owned enterprises ("SOEs"), by ensuring that they become profitable and self-sufficient or divesting their ownership stakes, and to the eventual conversion of the current defined benefit pension plan into a contributory scheme.

### 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, with real GDP growing by 1.0%, and by an additional 3.1% in 2012. However, between 2013 and 2015, the economy relapsed into a recession, before rebounding to a slight 0.2% increase of real GDP in 2016. In recent years, The Bahamas has maintained relatively stable prices, with an inflation rate averaging less than 1.0% 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 the years ended December 31, 2012 through December 31, 2016.

	Years Ended December 31,									
	2012 <sup>(p)</sup>		2013 <sup>(p)</sup>		2014 <sup>(p)</sup>		2015 <sup>(p)</sup>		2016 <sup>(p)</sup>	
	(in millions of \$, except percentages)									
<b>The Economy:</b>										
Nominal GDP <sup>(1)</sup> .....	\$10,720	100%	\$ 10,677	100%	\$10,844	100%	\$ 11,240	100%	\$11,262	100%
Add: Imports of goods and services.....	4,945	46%	4,689	44%	5,494	51%	4,653	41%	4,686	42%
Total supply of goods and services.....	15,665	146%	15,366	144%	16,338	151%	15,893	141%	15,948	142%
Less: Exports of goods and services.....	4,087	38%	4,246	40%	(4,149)	(38%)	(4,125)	(37%)	(3,956)	(35%)
Total goods and services available for domestic expenditure .....	\$11,578	108%	\$ 11,120	104%	\$12,188	112%	\$ 11,768	105%	\$11,992	106%

(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, 2012 through December 31, 2016.

	Years Ended December 31,				
	2012	2013	2014	2015	2016
Agriculture forestry and fisheries .....	1.1	0.9	0.9	0.8	0.9
Mining and quarrying.....	0.5	0.7	1.1	0.8	0.8
Manufacturing.....	2.9	2.7	2.9	2.4	2.8
Electricity and gas, water supply and sewerage.....	2.1	2.2	2.3	2.3	2.3
Construction.....	7.4	6.5	8.0	4.7	5.7
Wholesale and retail trade, motor vehicle repairs.....	12.5	13.1	12.7	12.3	12.8
Transport and storage.....	4.4	5.3	5.6	5.5	5.4

	Years Ended December 31,				
	2012	2013	2014	2015	2016
Accommodation and food services.....	8.7	8.2	7.3	8.7	7.7
Information and communication .....	3.2	3.8	4.5	4.3	4.2
Financial and insurance activities.....	9.3	8.7	9.3	9.4	8.6
Real estate activities .....	15.9	15.7	15.8	15.4	16.0
Professional, scientific and technical services .....	3.0	3.0	3.0	3.0	2.8
Administrative and support services.....	2.0	2.0	2.0	2.0	1.9
Public administration and defense, social security .....	5.1	5.2	5.1	5.3	5.0
Education .....	3.0	3.1	3.0	2.8	2.8
Human and health social work .....	3.0	3.0	2.9	2.7	2.7
Arts, other services, household employment, extraterritorial OR, S&T .....	6.8	7.3	7.6	8.0	7.4

Source: Department of Statistics

The following table sets forth the percentage of employed persons (as a percentage of the total labor force) by economic sector as of May 31, 2017.

	As of May 31, 2017
Agriculture, hunting, forestry and fishing.....	1.4
Mining, quarrying, electricity, gas and water .....	1.4
Manufacturing .....	4.2
Construction .....	10.4
Wholesale and retail .....	12.7
Hotels and restaurants.....	19.0
Transport, storage and communication.....	7.1
Financing, insurance, real estate and other business services .....	6.9
Community, social and personal services .....	35.6

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 more than half of total GDP and employment. Based on the results of a 2003 survey, tourism generates an estimated 50% of GDP and employs, 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. With its tropical climate, close proximity to the United States, accessibility and political stability, The Bahamas attracted approximately 6.3 million total visitors (including stopover, cruise and day visitors) in 2016.

#### *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. To develop and promote tourism, the Ministry of Tourism was provided with a total budget of approximately \$82.6 million in fiscal year 2016/2017, while the amount estimated for fiscal year 2017/2018 (including the budget estimated for ministries that fall under the Ministry of Tourism, but are not directly related to tourism such as those relating to aviation and airports) is equal to \$110.1 million. 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, the Resorts World Bimini project, the Baha Mar project and the Pointe.

The Albany Project, a luxury resort community in the southwestern end of New Providence by British financier Joe Lewis and renowned golfers Tiger Woods and Ernie Els, 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. Aimed at becoming an international draw for financial services and medical and sports tourism, the community is currently in the midst of an approximately \$750 million expansion project, to include the addition of a medical center with a hospital, helicopter landing pad and wellness center, a financial center and a “first of its kind” sports academy with boarding accommodation.

Resorts World Bimini, a 750 acre resort and casino located on Bimini Island, opened in 2013 and is a combined investment of Mr. Gerado Capo, a leading Florida builder and real estate developer, through his company RAV Bahamas Ltd., and the Malaysia-based Genting Group, a leading international resort, gaming, cruise line, agriculture and energy conglomerate. In June 2016, the resort opened the five-star 305 room hotel and casino property which is being operated under the world renowned Hilton brand.

The \$4.2 billion mega-resort, Baha Mar, opened its first phase to guests on April 21, 2017—a 1,800 room hotel and 200,000 square foot convention center operated by the Grand Hyatt. In addition, the property features the 100,000 square foot, world class Sky Warrior casino (presently the largest in the region) as well as the 18-hole Jack Nicklaus Signature Golf Course. Additional phases of the Baha Mar resort project are expected, including the SLS Lux hotel property, which is scheduled to open in November 2017, and the upscale Rosewood property, to be opened in the spring of 2018. Employment is expected to grow from the current 2,000 employees to around 5,500 next year when the resort is fully operational.

Other substantive tourism-related investments underway include the \$200 million Pointe hotel and condo hotel residences on New Providence, the approximately \$445 million expansion development at the Bakers Bay resort in Abaco, along with several multi-phased resort developments in The Exumas, with a combined value in excess of approximately \$1.5 billion and various hotel renovation projects throughout The Bahamas.

In addition to large scale developments like Baha Mar, 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.

In October 2016, Hurricane Matthew severely damaged anchor resort properties in Grand Bahama, resulting in the closure of the Memories Resort and parts of the Grand Lucayan Resort and, in general, 50% of the hotel rooms in Grand Bahama being out-of-commission in 2017. Given the depression of the Grand Bahama economy, the Government recently made an offer to purchase the Grand Lucayan Resort and is awaiting a response from the property owners, Hutchinson Whampoa. Should the transaction be concluded, it is the Government’s intent to place the property under private management.

The following table sets forth hotel occupancy rates as of and for the years ended December 31, 2012 through December 31, 2016:

	As of and for the Years Ended December 31,				
	2012	2013	2014 <sup>(p)</sup>	2015 <sup>(p)</sup>	2016 <sup>(p)</sup>
Average daily rate (in \$) .....	195.84	205.01	200.16	209.30	n.a.
Occupancy .....	55.9%	51.9%	56.0%	58.5%	n.a.

*Travel*

Nassau is one of the world’s busiest cruise ship ports, with approximately 2,020 ship arrivals in 2016—a 9.1% decrease from the number of ships that visited in 2015. Furthermore, The Bahamas has two international airports (Lynden Pindling International Airport in New Providence and Grand Bahama International Airport in Grand Bahama), together with six Tier I airports on various Family Islands 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 following table sets forth selected data relating to visitors to The Bahamas as of and for the years ended December 31, 2012 through December 31, 2016 and the six months ended June 30, 2016 and June 30, 2017.

	As of and for the Years Ended December 31,					As of and for the Six Months Ended June 30, 2016	As of and for the Six Months Ended June 30, 2017 <sup>(P)</sup>
	2012	2013	2014	2015	2016		
	(\$ in millions, visitors in thousands)						
Stopover visitors							
Total visitors .....	1,422	1,363	1,427	1,484	1,482	782 <sup>(1)</sup>	735 <sup>(1)</sup>
Increase (decrease).....	5.6%	(4.1)%	4.7%	4.0%	(0.2)%	2.8%	(6.0)%
Total expenditures.....	1,897	1,897	1,976	2,224	n.a.	n.a.	n.a.
Cruise visitors							
Total visitors .....	4,434	4,709	4,805	4,513	4,690	2,554	2,536
Increase (decrease).....	6.6%	6.2%	2.0%	(6.1)%	3.9%	n.a.	(0.7)%
Total expenditures.....	412	398	337	309	n.a.	n.a.	n.a.
Total visitors <sup>(2)</sup> .....	5,940	6,151	6,320	6,112	6,265	3,336	3,271
Increase (decrease).....	6.3%	3.5%	2.8%	(3.3)%	2.5%	1.8%	(2.0)%
Total expenditures <sup>(3)</sup> .....	2,312	2,298	2,316	2,538	n.a.	n.a.	n.a.
Increase (decrease).....	7.9%	(0.7)%	0.8%	9.5%	n.a.	n.a.	n.a.

(1) Represents air (includes day visitors, which are excluded from annual stopover data) and sea arrivals (all arrivals by sea, including cruise).

(2) Includes stopover, cruise and day visitors.

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

Sources: Ministry of Tourism and Central Bank.

The performance of the Bahamian tourism sector is, and will continue to be, largely dependent upon economic and other conditions in the United States and other countries that serve as key source markets. The number of sea visitors grew by approximately 3.9% in 2016 *vis-à-vis* a decrease of 6.1% in 2015, while the more lucrative stopover segment increased by an estimated 4.0% in 2015, compared to a 0.2% decline in 2016. Led by gains in cruise visitors, total arrivals to The Bahamas improved by 2.5% to approximately 6.3 million tourists in 2016, following a 3.3% decline in 2015 to approximately 6.1 million tourists. Data for the first half of 2017, indicates that total arrivals decreased by 2.0% to 3.3 million tourists, as air and sea passengers fell by 6.0% and 0.7% to 0.7 million and 2.5 million respectively.

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 predominantly of banking, including private banking, and trust companies, insurance companies and investment funds) 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 international 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 international 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 international banking business in The Bahamas has declined marginally, although the quality of the remaining institutions may have improved since December 2000, with the introduction of licensing requirements that require a physical presence and actual operations in The Bahamas. As institutions conformed 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, but it has stabilized in the last two years. For example, the number of banks and trust companies licensed to operate within or from within The Bahamas was 249 in 2015 and 248 in 2016. Of these 248 institutions, 97 were public financial institutions, namely business entities licensed to provide banking and/or trust services to the public, consisting of 64 Bahamian incorporated eurocurrency operations, 17 eurocurrency branches of foreign banks and 16 authorized dealers and agents. These institutions carry out a variety of operations ranging from retail banking to portfolio management and trust services. The remaining 151 institutions are restricted, non-active or nominee licensees. As of December 31, 2016, the total asset base of offshore banking and trust institutions was estimated to be approximately \$175.7 billion. Government revenues derived from bank and trust company license fees increased by 4.5% in 2016, following a 32.9% reduction in the prior year. Total employment in the banking sector decreased by an estimated 2.5% between 2015 and 2016.

Outside of the banking sector, statistics compiled by The Bahamas’ Securities Commission indicate a modest gain in the number of licensed investment funds, from 885 in 2015 to 920 as of November 2016. In the insurance sector, the number of registered insurance companies is estimated to have increased by seven in 2016 to a total of 142.

### *Construction and Manufacturing*

The construction sector accounted for an estimated 5.7% of GDP in 2016 and employed an estimated 20,816 persons or 10.4% of the total labor force as at May 2017. The following table sets forth construction activity (in amount of construction permits) in The Bahamas (New Providence and Grand Bahama) for the years ended December 31, 2012 through December 31, 2016.

	Years Ended December 31,				
	2012	2013	2014	2015	2016
<b>Building Permits:</b>					
Number .....	1,916	1,462	1,410	1,304	1,122
Value (in millions of \$).....	\$ 716	\$ 472	\$ 561	\$ 548	\$ 540
<b>Building Starts:</b>					
Number .....	467	405	448	412	352
Value (in millions of \$).....	\$ 117	\$ 140	\$ 129	\$ 117	\$ 96
<b>Building Completions:</b>					
Number .....	807	709	630	586	622
Value (in millions of \$).....	\$ 317	\$ 217	\$ 251	\$ 229	\$ 193

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 \$4.2 billion Baha Mar development on New Providence is near completion, the first phase opened in April 2017, including a convention center, operated by Grand Hyatt, and a golf course. In addition to the above, phase one of the \$200.0 million Pointe project has been completed, and the multi-million dollar Resorts World Bimini property opened officially in June

2016. 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, as well as hurricane rebuilding activity.

The manufacturing sector accounted for an estimated 2.8% of GDP in 2016. 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 to CWC Bahamas Holdings Limited, a 100% owned subsidiary of FTSE-listed Cable & Wireless Communications plc. Following its announced energy reform plans, in August 2013, the Government engaged PowerSecure to manage Bahamas Power and Light Company Ltd. (“BPL”), the newly created subsidiary of Bahamas Electricity Corporation, which was subsequently terminated in September 2017. The purpose is to separate the regulatory functions from those related to the generation and distribution of energy. See “Government Enterprises—Privatization.”

#### *Other*

In 2016, the Government enacted a compendium of new petroleum industry legislation (repealing and replacing the Petroleum Act, Ch 219) — modernizing petroleum exploration, drilling, production and related matters in conformance with current international industry standards. In particular, the new legislative framework allows the Government to explore for petroleum resources in partnership with another entity or alone, and for the Minister responsible for the petroleum industry to enter into production sharing agreements with other petroleum exploration and production companies. Under the new fiscal regime, the Government is to take a significant share of revenue associated with petroleum production, and payment of royalties is to be made into a sovereign wealth fund. The legislation also provided for liability for environmental damage and pollution to rest solely with the licensee or lessee, with hefty fines and penalties.

Presently, there are two oil exploration companies that have been granted licenses to explore for oil in the Bahamas. In 2007, Bahamas Petroleum Company Limited (“BPC”) was granted a 12 year license, based on three-year renewable periods and NPT Oil Ltd. was licensed in 2009. BPC expenditures to date have covered the production of seismic studies that indicate numerous formations. BPC is presently in the process of acquiring a drilling rig operation to drill one of the formations in the first half of 2018. NPT OIL Ltd. is also in the process of engaging a drilling company.

More recently, two additional companies have applied for licenses to explore for oil onshore in The Bahamas, namely, Columbus Pillow Exploration Co. Ltd. and Choice Petroleum Company Ltd. These applications are presently being processed.

In 2016, 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:

- progressing public sector reform, including the establishment of a one-stop shop, to create an efficient public service committed to improving the ease of doing business with the Government;
- promoting a more sustainable debt and deficit trajectory through judicious expenditure controls, the continuation of enhanced tax compliance initiatives, an improved budgeting process, greater efficiency and cost recovery among the state-owned enterprises, pension reform and anchoring fiscal discipline in fiscal responsibility legislation;
- promoting job creation, economic growth and poverty reduction through renewable energy and energy conservation initiatives, the creation of a knowledge-based economy, and upgrading and modernizing of the Family Island airports, docks and marinas;
- providing new business incentives to businesses that offer goods and services in the areas of renewable energy, culture, export, agriculture and fisheries, and manufacturing of authentic Bahamian souvenirs;
- reducing the cost of energy by modernizing the electricity generation, transmission and distribution infrastructure, and creating a renewable energy economy;
- amending the Business License Act to, for example, modify the method for calculating license fees to ensure that businesses are not unduly burdened;
- employing public-private partnerships to finance capital projects;
- supporting Bahamian investments in tandem with strategic foreign direct investments; and
- increasing investments in education, focusing on reforms in the areas of enabling information technology infrastructure, technical and vocational training initiatives and administrative policy reforms to ensure effectiveness and efficiency in the delivery of services.

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 improving its current sovereign credit ratings from both Moody's and S&P. As such, the Government is dedicated to reducing the growth rate of its debt as economic conditions improve, decreasing the Commonwealth's debt-to-GDP ratio.

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 as of May 31, 2012 through May 31, 2017.

	As of May 31,					
	2012	2013	2014	2015	2016	2017
Average unemployment rate .....	14.7%	16.2%	13.8%	12.0%	12.7%	9.9%

Source: Department of Statistics.

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 continue to decrease in the near-to-medium term. The unemployment rate narrowed to 12.0% in May 2015, from 13.8% in May 2014, but increased to 12.7% in May 2016. As of May 2017, the unemployment rate tapered to 9.9%, with the recent downward trend largely attributable to gains in construction sector employment following Hurricanes Joaquin and Matthew, and the onboarding of workers for Baha Mar.

The mean household income in The Bahamas for May 2017 and May 2016 was \$39,048 and \$37,716, 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 parity of the Bahamian Dollar with the U.S. dollar. The Bahamas has, in recent years, experienced relatively stable inflation rates. During 2016, the change in the retail price index amounted to a decline of (0.35%), compared to an increase to 1.88% in 2015, owing 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 September 30, 2017, The Bahamas’ financial system consisted of 241 banks and trust companies licensed to operate within or from within The Bahamas. Of the total, 92 held a public license and were permitted to provide banking and/or trust services to members of the public, and 149 were restricted, non-active or nominee licensees. The sector also included 126 private trust companies, five non-bank money transmission service providers and ten credit unions.

Banking activities continue to dominate the financial services sector in The Bahamas. Of the 241 banks and/or trust companies licensed in The Bahamas as of September 30, 2017, 16 were permitted to conduct operations in the domestic market. These are comprised of eight commercial banks authorized to deal in gold and all foreign currencies, and eight trust companies for which domestic activities are limited. As of June 30, 2017, the total domestic assets of Bahamian domestic bank licensees stood at approximately \$10.2 billion, while the international business of the domestic licensees totaled approximately \$9.7 billion.

Financial services traditionally and currently accounts for a significant percentage of the country’s GDP. As a result, the Government has enacted legislative and regulatory initiatives, most significantly in 2000, aimed at enhancing the financial services sector and strengthening the regulatory environment. These laws, as well as those which have come into force in more recent years, provide for more comprehensive and enhanced supervision and increased money laundering deterrence—all within the context of a framework that allows for greater international cooperation in the oversight of the financial system.

Furthermore, over the last decades, 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. With the introduction of the Common Reporting Standard (“CRS”) by the OECD in 2014 and resulting requirement for the automatic exchange of tax and financial information on a global level, the Government of The Bahamas has taken a policy decision to implement the CRS by way of the Multilateral Convention on the Mutual Administrative Assistance in Tax Matters on a non-reciprocal basis.

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. As a further measure, the Central Bank, in conjunction with the Government and other regulatory partners, is developing an effective National Financial Crisis Preparedness Plan. This framework would provide for early detection and timely response to emerging crises, to reduce the likelihood of a shock at the level of an individual firm and mitigate any systemic impact to the wider financial system.

The Caribbean Financial Action Task Force's onsite Fourth Round Mutual Evaluation of The Bahamas KYC/AML/CFT supervisory framework and practices was conducted between November 30 and December 11, 2015. The report was finalized and published on July 17, 2017.

The report provided a summary of the AML/CFT measures in place in The Bahamas as at December 2015. It also assesses the level of compliance with the Financial Action Task Force 40 Recommendations and the level of effectiveness of The Bahamas' AML/CFT system, and provided recommendations on how the system could be strengthened. In terms of key findings, the report noted that, inter alia, The Bahamas is still completing its Money Laundering/Terrorist Financing National Risk Assessment ("NRA") and has yet to develop documented national AML/CFT policies. Nevertheless, there is a reasonable understanding of ML/TF risks among competent authorities on account of the NRA exercise. In addition, it noted that The Bahamas has a well-functioning system for international co-operation which provides constructive mutual legal assistance and extradition. International co-operation is facilitated through agreements, memoranda of understanding and asset-sharing protocols; however, the time to respond to requests can be improved.

In response, The Bahamas will be looking to renew and update its AML/CFT legislative and regulatory framework, and enhance its supervisory approach to AML/CFT risk.

As part of its efforts to combat tax evasion and in keeping with transparency, to facilitate the exchange of information with U.S. authorities, including the Internal Revenue Service, and to implement FATCA, The Bahamas and the United States signed a Model 1 Inter-Governmental Agreement ("Model 1 IGA") on November 3, 2014. Under the Model 1 IGA, The Bahamas requires that reporting Bahamian financial institutions report specified information to The Bahamas' Competent Authority (the "Competent Authority") and not directly to the U.S. authorities. This information is then automatically exchanged by the Competent Authority with the Internal Revenue Service.

The regulatory framework under the Model 1 IGA was brought into force by The Bahamas and the United States of America Foreign Account Tax Compliance Agreement Act in 2015.

The most recent global financial crisis, which led to a sharp contraction in economic activity, accompanied by layoffs and deteriorating household debt servicing capacity, caused a sharp increase in commercial banks' non-performing loans, which peaked at 15.3% in 2014 from a low of approximately 4.2% in 2006. Since then, banks' loan restructuring efforts, alongside some distressed loan disposals by a large bank, helped to reduce banks' non-performing loans, to 11.3% by June 2017.

To address the deterioration in the prudential liquidity and capital requirements of the predominately Government-owned commercial bank, the Bank of The Bahamas, non-performing loans having a face value of \$100 million were transferred to Bahamas Resolve Limited ("Resolve"), a special purpose vehicle established by the Government for this expressed purpose and supported by a promissory note of equivalent value. In 2016, the Government's support of the Bank of The Bahamas was extended as it subscribed for the majority of the institution's \$40 million ordinary shares rights offering, and then between December 2016 and February 28, 2017, the Government subscribed to the Bank of The Bahamas' first tranche, \$10 million of its \$30 million fixed rate perpetual contingent convertible bonds which were subsequently converted into common shares effective June 2017.

As a consequence of these two transactions, the Government and the National Insurance Board now hold a combined majority shareholding of 82.6%.

In a move to provide more support to the institution, additional non-performing loans from the Bank of The Bahamas, totaling approximately \$167.7 million, were transferred to Resolve in two tranches, effective August 2017 and September 2017, and Resolve issued a corresponding promissory note payable to the Government. Additional

liquidity support, amounting to \$100 million, has been committed to facilitate Resolve retiring the original \$100 million promissory note from the Bank of The Bahamas, of which the Government has already made the first payment of \$50 million. The Government believes that these recent corrective and more proportional response measures will place the Bank of The Bahamas on a more sound footing and limit the incidence of future fiscal risks.

The following table sets forth selected indicators for domestic commercial banks and other local financial institutions in The Bahamas as of and for the years ended December 31, 2012 through December 31, 2016 and the six months ended June 30, 2017.

	As of and for the Years Ended December 31,					As of and for the Six Months Ended June 30, 2017 <sup>(p)</sup>
	2012	2013	2014	2015	2016	
			(%)			
Financial system capital adequacy ratio <sup>(1)</sup> .....	26.10	31.70	31.20	30.90	27.90	27.80
Non-performing loans to total gross loans.....	13.60	15.30	15.30	14.20	11.40	11.30
Return on average assets .....	1.53	1.43	(1.16)	1.86	2.03	n.a.
Return on equity.....	6.30	2.70	2.10	9.50	8.60	n.a.
Interest margin to gross income.....	67.09	68.84	69.81	70.52	69.43	n.a.
Non-interest expenses to gross income.....	40.78	47.10	66.29	47.42	48.44	n.a.
Liquid assets to total assets (liquid asset ratio).....	20.19	21.75	22.65	24.07	25.88	27.21
Liquid assets to deposits.....	31.22	34.04	34.40	37.01	37.81	39.49
Foreign currency deposits, percent of total deposits.....	3.50	4.41	3.66	3.04	4.63	4.65
Deposits maturing within 3 months, percent of total deposits.....	21.60	21.20	20.98	20.37	13.83	12.05
Total provisions to total loans .....	5.90	6.01	7.86	8.31	8.02	7.91
Total provisions to non-performing loans.....	43.00	39.00	51.24	58.50	70.61	69.83
Total non-performing loans to total loans.....	13.60	15.34	15.34	14.21	11.35	11.32
<b>Memo Items (in millions of \$)</b>						
Total domestic assets.....	9,601.24	9,772.97	9,636.28	9,812.89	9,967.30	10,173.19
Liquid assets.....	1,938.24	2,126.08	2,182.24	2,361.55	2,579.92	2,768.41
Total deposits .....	6,207.70	6,245.81	6,344.28	6,380.37	6,823.96	7,011.25
Fixed deposits up to 3 months .....	1,340.64	1,324.13	1,330.88	1,299.63	943.50	845.13
Domestic currency deposits.....	5,990.15	5,970.16	6,112.28	6,186.26	6,508.07	6,684.91

(1) Data on the financial system capital adequacy ratio relating to 2017 are provided as of March 2017.  
Source: Central Bank.

In 2017, The Bahamas underwent its OECD Global Forum on Tax Transparency and Exchange of Information for Tax Purposes “Phase 3” peer review. In connection therewith, Bahamian authorities completed a questionnaire which was submitted to the Global Forum Secretariat in May 2017, and met with the OECD’s assessment team during the month of July 2017. As of the date of this offering memorandum, no response was received and no report was issued resulting from such review.

The following table sets forth consolidated assets of domestic commercial banks and other local financial institutions in The Bahamas as of June 30, 2017.

	As of June 30, 2017					Total
	Cash	Balance with Central Bank	Securities	Loans & Advances	Other Assets	
Total amount (in \$).....	93,672.00	1,046,896.00	1,767,206.00	6,865,063.00	400,351.00	10,173,188.00
% Share.....	0.9%	10.3%	17.4%	67.5%	3.9%	100.0%

## 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 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 towards 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 December 22, 2016, the Central Bank reduced its discount rate by 50 basis points to 4.0%, with the view to position domestic businesses to benefit from growth opportunities in the near-term and to give support to housing investments. The Central Bank will continue to monitor economic developments and will make needed adjustments in its monetary stance to ensure the development of the financial sector, along with sustaining economic growth.

The following table sets forth the monetary and credit aggregates as of the years ended December 31, 2012 through December 31, 2016 and the six months ended June 30, 2017.

	As of the Years Ended December 31,					As of the Six Months Ended June
	2012	2013	2014	2015	2016	30, 2017 <sup>(p)</sup>
	(in millions of \$)					
Currency in active circulation.....	216	214	233	247	280	294
Demand deposits .....	1,358	1,427	1,763	1,825	2,180	2,365
Money supply (M1).....	1,575	1,641	1,996	2,071	2,461	2,659
Savings deposits .....	1,069	1,114	1,068	1,148	1,296	1,381
Fixed deposits .....	3,444	3,288	3,102	2,966	2,866	2,779
Money supply (M2) <sup>(1)</sup> .....	6,088	6,043	6,165	6,186	6,622	6,820
Foreign currency deposits.....	216	274	225	188	308	323
Money supply (M3) <sup>(2)</sup> .....	6,304	6,317	6,390	6,374	6,930	7,143
Private sector credit.....	6,628	6,551	6,367	6,300	6,171	6,157
Net credit to Government.....	1,595	1,947	2,024	2,198	2,551	2,742
Credit to rest of public sector .....	468	459	480	468	406	387
Total domestic credit.....	8,691	8,957	8,871	8,966	9,128	9,286
Other net external liabilities <sup>(3)</sup> .....	(601)	(695)	(501)	(532)	(225)	(220)
Official foreign reserves .....	810	742	788	812	904	960
Bank liquidity.....	323	407	488	405	750	750

(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. 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 of The Bahamas Quarterly Statistical Digest August 2017.

The money supply increased by 8.7% in 2016 as compared to growth rates of approximately 0.2% and 1.15% in 2013 and 2014, respectively, and a slight (0.25%) decline in 2015, primarily as a result of reinsurance receipts following Hurricane Matthew in 2016, as well as the effects of Baha Mar operations. In 2016, the growth in savings deposits and demand deposits outpaced the decrease in fixed deposits.

Personal loans have accounted for approximately 75.3% of overall domestic bank credit as of December 31, 2016. Other sectors of the economy remained relatively constant over the last five years as a percentage of overall bank credit, with construction representing 5.2%, tourism representing 0.21%, distribution representing 2.4% and professional services representing 0.8% of total domestic bank credit.

Foreign currency loans of domestic banks narrowed over the past five years, decreasing from approximately \$761.1 million as of December 31, 2008 to approximately \$437.0 million as of December 31, 2016, representing a 42.6% decline over the period. The operations of Bahamian domestic banks include a significant international component, with foreign assets totaling approximately \$8.6 billion.

### **Bank Regulation and Supervision**

The Central Bank regulates and supervises the banking, trust, credit union and money transmission business sectors of The Bahamas and is responsible for ensuring the safety and soundness of its supervised financial institutions (“SFIs”) and the stability of the financial system. Its supervisory and regulatory framework is aimed at ensuring that SFIs maintain appropriate corporate governance, adequate risk controls, and compliance with applicable laws and regulations. Its prudential oversight includes reviews of liquidity, solvency and capital adequacy. Through the development and issuance of policy guidelines and regulations, the Central Bank has aligned its practices with the Core Principles for Effective Bank Supervision as prescribed by the Basel Committee on Banking Supervision.

The supervisory and regulatory functions of the Central Bank include the authorization and approval of individuals and institutions, off-site monitoring, on-site examinations and policy development. It is strongly focused on licensing approvals, which involve, among other things, the consideration of whether an 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 SFIs, which include off-site supervision (such as risk assessments, financial analyses, discovery review and other meetings) as well as on-site examinations. 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. These new laws allowed for enhanced supervision of financial institutions, a more in-depth anti-money laundering/CFT regime, and greater cooperation and coordination in the oversight of financial institutions, both domestically and internationally.

In 2007, amendments to The Central Bank of The Bahamas Act, 2000, and the Banks and Trust Companies Regulation Act, 2000, broadened the powers of the Central Bank to share information with other domestic regulatory authorities where the Governor General considers that such cooperation or information may be relevant to the functions of such other regulatory authority or as a necessary part of a framework for consolidated supervision. Additional amendments have been made to the Banks and Trust Companies Regulation (Amendment) Act 2000 during 2008, 2010, 2011 and 2012 to continue to augment and strengthen the existing regulatory framework.

In recent years, the Uniform By-Laws for Credit Unions (April and July 2016) were released, and the Bank and Trust Companies (Administrative Monetary Penalties or “AMP”) Regulations, 2016 were issued setting out the legislative framework for the AMP regime, as well as outlining the various contraventions and related penalties. Effective May 29, 2017, the Central Bank issued amended Guidelines on the Prevention of Money Laundering & Countering the Financing of Terrorism for its supervised financial institutions. The amendments clarified certain existing requirements and addressed existing gaps in an effort to increase the level of compliance of the guidelines with international standards. The Guidelines are also directed at co-operative credit unions to take account of the Central Bank’s regulatory and supervisory responsibilities of these entities.

In 2012, the Central Bank implemented its Risk-Based Supervisory Framework (“RBSF”) for banks and trust companies. To date, the RBSF is well entrenched in defining off-site and on-site supervision work programs, by focusing supervisory resources on risks that pose a greater threat to financial soundness and stability. During

2016, the Central Bank continued to refine its RBSF by introducing the concept of “Evergreening” as an enhancement to the risk assessment process. The Evergreening framework is intended to refresh the Central Bank’s point-in-time risk view of financial institutions and deploy the necessary supervisory tools, based upon the magnitude and direction of such risks.

During 2012, the Central Bank also implemented a stress testing framework using historical data and macroeconomic variables to forecast for three years the possible impact of credit, interest rate and liquidity risks on capital levels. This testing model continues to be a supervisory tool used by the Central Bank in its oversight of the domestic commercial banking sector.

During 2014, the Central Bank rolled out phase 1 of its Basel II and III framework. Over the past three years, the Central Bank has continued its focus on the implementation of Pillars I, II, and III of the Basel II framework, and on the capital component of the Basel III regime, inclusive of financial institutions’ Internal Capital Adequacy Assessment Processes (“ICAAP”), revisions to the Central Bank’s Guide on its Ladder of Supervisory Intervention and the introduction and implementation of the new and revised capital reporting forms under the Basel III framework. Additionally, the Central Bank released the revised versions of the Guidelines on the Management of Capital Adequacy, the Guidelines for the Management of Interest Rate Risk and the final versions of the Guidelines on the ICAAP and the Minimum Disclosures Guidelines. Over the near to medium term, the Central Bank will focus on implementing the phase-in arrangements under the Basel III framework, which is expected to include a Domestic Systematically Important Bank framework, and focus on the Leverage Ratio, the Liquidity Coverage Ratio and the Net Stable Funding Ratio. See “—Financial Sector.”

On June 1, 2015, the Central Bank assumed responsibility for the supervision and regulation of credit unions. Ongoing supervision and monitoring of operations are conducted through the assessment of regulatory findings and key ratios used by the Council of Credit Unions to quantitatively assess risk and the financial health of credit unions. The Central Bank is in the process of incorporating the credit unions into its RBSF to enhance its assessment of the inherent risk and mitigating controls of these institutions.

On-site examinations remain a significant supervisory tool of the Central Bank. During 2016, the Central Bank conducted 35 bank and trust company examinations (inclusive of four follow-up visits focused on the validation of the effectiveness of remediation programs to previous reports of examination) and seven examinations focused on reputational risk (anti-money laundering/know your customer/countering the financing of terrorism). The remaining examinations included elements of corporate governance, credit, fiduciary and operational risks. Eight discovery meetings were held with international firms, and four financial credit unions were examined.

The Central Bank continues its engagement with home consolidated regulators of SFIs via annual regulatory letters, meetings and supervisory colleges. Additionally, the Central Bank is a member of the Caribbean Group of Banking Supervisors, the Offshore Group of Banking Supervisors, the Association of Banking Supervisors of the Americas (a regional group of banking supervisors covering North America, Latin America and the Caribbean). Locally, the Central Bank is a part of the Group of Financial Service Regulators, which includes the Insurance Commission of The Bahamas, the Securities Commission of The Bahamas, and the Compliance Commission.

### **Exchange Rates and Exchange Controls**

The unit of currency in The Bahamas is the Bahamian dollar. The Government has maintained a fixed 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, 2007, 2010, 2016 and 2017, designed to progressively liberalize the system. In line with these measures, commercial banks (authorized dealers) were given broader approval authority for a wide range of current account transactions (personal, business and temporary residents' remittances abroad) and signatory on foreign currency account, reducing 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 and locally in foreign currency, while deepening domestic capital markets. Commercial banks have been given approval to facilitate foreign currency lending to wholly Bahamian-owned entities, operating in eligible sectors of the economy and lending to temporary residents in Bahamian dollars. Areas subject to exchange control liberalization include:

- revisions in the investment currency market rate;
- foreign real estate time-share purchases;
- employee stock option plans and 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;
- National Insurance Board overseas investment program;
- resident designated entities' investments in private and public sector securities;
- lending by commercial banks to wholly-owned Bahamian entities; and
- lending by non-residents to entities regarded as resident for exchange control purposes.

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 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 non-residents 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 non-resident 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, after completion of the purchase or acquisition, apply to register such acquisition with the Bahamas Investment Authority. Upon receipt of the application, the said purchase or acquisition will be registered and a Certificate of Registration issued evidencing such registration. A non-Bahamian (other than a permanent resident of the Bahamas or a non-Bahamian acquiring land or an interest in land by inheritance) who (i) notwithstanding the above, intends to purchase or acquire an interest in real property which is two or more contiguous acres in size, or (ii) intends to purchase or acquire an interest in real property which is not to be used as an owner-occupied property or for the construction of premises to be used as an owner-occupied property, must first apply to the Bahamas Investment Authority for approval. If the application is successful, a permit evidencing such approval will be issued to the non-Bahamian.



## EXTERNAL SECTOR OF THE ECONOMY

The Bahamian economy is a small 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 the years ended December 31, 2012 through December 31, 2016.

	Years Ended December 31,				
	2012	2013	2014	2015	2016
	(in millions of \$)				
Imports:					
Food and live animals.....	484	467	513	509	492
Beverages and tobacco .....	84	74	85	93	91
Crude materials (except fuel).....	68	61	67	69	73
Mineral fuels, lubricants, etc.....	875	727	868	535	403
Animal and vegetable oils .....	11	10	10	9	9
Chemicals .....	398	382	394	343	273
Manufactured goods .....	524	460	557	433	439
Machinery and transport equipment .....	688	657	720	615	669
Miscellaneous and other items.....	382	397	424	429	365
Other commodities and transportation.....	133	131	152	128	118
Total imports.....	3,647	3,366	3,790	3,162	2,932
Exports:					
Total domestic exports.....	337	364	353	230	202
Total re-exports <sup>(1)</sup> .....	171	209	171	149	155
Total exports.....	508	574	524	379	357

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

Sources: External Trade Statistic Report, Department of Statistics, 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 fixed parity of the U.S. and Bahamian dollars and the close relationship between the countries. The Bahamas also conducts trade with Canada, the United Kingdom and other countries comprising the European Union. According to the Government's estimates for 2016, 82.7% of Bahamian exports were to the United States, while 84.3% of all imports into The Bahamas were from the U.S. Corresponding numbers for the European Union and other countries (among them, the United Kingdom, Canada, Caribbean countries and others) were 2.8% and 13.0%, 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 non-oil imports and exports (including re-exports) by country/region for the years ended December 31, 2012 through December 31, 2016.

	Years Ended December 31,				
	2012	2013	2014	2015	2016
	(in millions of \$)				
Imports:					
United States.....	2,414	2,393	2,559	2,180	2,130
United Kingdom.....	17	14	24	21	23
Canada.....	20	18	20	26	23
Caribbean Commonwealth.....	19	10	48	16	13
European Union (excluding United Kingdom).....	78	33	85	93	70
Other countries.....	223	170	206	291	268
Total.....	2,772	2,639	2,941	2,627	2,528
Exports:					
United States.....	357	441	404	309	291
United Kingdom.....	12	31	5	5	13
Canada.....	26	23	14	6	2
Caribbean Commonwealth.....	2	2	1	5	8
European Union (excluding United Kingdom).....	54	35	58	24	31
Other countries.....	57	42	41	31	6
Total.....	508	574	524	379	352

Source: 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 as of and for the years ended December 31, 2012 through December 31, 2016 and the six months ended June 30, 2017.

	As of and for the Years Ended December 31,					As of and for the Six Months Ended June 30,
	2012 <sup>(p)</sup>	2013 <sup>(p)</sup>	2014 <sup>(p)</sup>	2015 <sup>(p)</sup>	2016 <sup>(p)</sup>	2017 <sup>(p)</sup>
	(in millions, except percentages)					
Current Account:.....						
Merchandise trade (net)						
Exports.....	984	955	834	521	481	315
Imports.....	(3,386)	(3,166)	(3,344)	(2,954)	(2,651)	(1,499)
Total.....	(2,402)	(2,211)	(2,510)	(2,434)	(2,170)	(1,183)
Services (net)						
Travel.....	2,027	2,025	2,105	2,299	2,261	1,281
Transportation.....	(265)	(245)	(288)	(258)	(268)	(186.7)
Other.....	(607)	(734)	(820)	(424)	(878)	(517.3)
Total.....	1,155	1,046	997	1,617	1,115	577
Income (net)						
Compensation of employees.....	(45)	(36)	(64)	(67)	(39)	(20)
Investment income.....	(223)	(293)	(374)	(336)	(401)	(180)
Total.....	(268)	(329)	(438)	(403)	(440)	(200)
Current transfers (net)						
Government.....	121	123	118	130	118	60
Other sectors.....	(46)	(67)	(52)	(115)	198	(116)
Total.....	75	55	66	15	316	(56)
Current account surplus (deficit).....	(1,439)	(1,439)	(1,885)	(1,203)	(1,178)	(863)
Current account surplus (deficit) as a	(13.4%)	(13.5%)	(17.4%)	(10.7%)	(10.5%)	n.a

	As of and for the Years Ended December 31,					As of and for the Six Months Ended June 30,
	2012 <sup>(p)</sup>	2013 <sup>(p)</sup>	2014 <sup>(p)</sup>	2015 <sup>(p)</sup>	2016 <sup>(p)</sup>	2017 <sup>(p)</sup>
percentage of nominal GDP.....						
Capital and Financial Account:						
Capital account (transfers) .....	(7)	(10)	(9)	(19)	(14)	(13)
Financial account .....	1,274	1,027	1,517	369	475	329
Direct investment.....	526	382	251	76.1	73.7	40
Portfolio investment.....	(37)	(34)	(27)	(12)	(22)	(9)
Other investment.....	785	679	1,293	305	423	298
Central government long-term capital flow (net).....	239	140	411	95	119	(11)
Other public sector capital.....	172	4	94	7	100	(3)
Banks .....	(2)	62	(162)	30	(306)	(5)
Other .....	376	473	950	174	511	317
Capital and financial account .....	1,267	1,018	1,509	350	461	315
Net errors and omissions <sup>(1)</sup> .....	98	353	423	878	808	604
Overall balance .....	(75)	(69)	46	24	92	56

(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: Central Bank.

As a net importer of goods, The Bahamas' external current account deficit mostly reflects the trends in tourism receipts (for exports) and consumer demand (for imports). In 2014, the deficit rose by \$446.0 million (31.0%) to \$1,885.0 million, largely on account of an increase in imports associated with the Baha Mar project, but has since returned to trend. During 2016, the current account deficit fell, relative to 2015, by an estimated \$25.5 million (2.1%) to \$1,178.9 million. Supporting this development, the trade goods deficit decreased by \$263.7 million (10.8%) to \$2,169.8 million, attributed primarily to a \$303.1 million (10.3%) reduction in imports, that overshadowed the \$39.4 million (7.6%) decrease in exports. The services account surplus fell by an estimated \$501.6 million (31.0%) to \$1,116 million in 2016, compared to a \$620.6 million (62.2%) expansion in 2015, mainly as net outflows for other miscellaneous services rose by more than two-fold to \$877.7 million, while net travel receipts declined by 1.6%.

The capital and financial account normally registers a surplus, as private sector investment net inflows usually offset capital transfers and public sector net outflows. In 2016, the capital and financial account surplus firmed to \$461.3 million, compared to \$349.8 million in 2015, largely owing to an increase in net inflows on the financial account. Further, during 2016 direct investments tapered by \$2.4 million to \$74.0 million, following a sharp \$175.2 million decline in 2015. Meanwhile, in 2016 the public sector external debt net inflows increased by \$93.9 million, compared to \$100.0 million in 2015, largely reflecting proceeds from the Government's CH\$100 million loan from Credit Suisse AG, Cayman Islands Branch.

The following table sets forth the official foreign currency reserves as of the years ended December 31, 2012 through December 31, 2016 and the six months ended June 30, 2016 and June 30, 2017.

	As of the Years Ended December 31,					As of the Six Months Ended June 30,	
	2012	2013	2014	2015	2016	2016	2017
	(in millions of \$)						
Balances with banks .....	216	122	155	207	255	389	286
Foreign securities.....	556	551	545	522	551	560	572
Special drawing rights at IMF.....	10	10	9	9	26	27	27
Reserve position at IMF.....	28	59	78	75	73	76	75
Total.....	810	742	788	812	904	1,052	960

Source: The Central Bank of The Bahamas Quarterly Statistical Digest August 2017

External reserves have trended upward since 2014. By the end of December 2015, external reserves grew by \$46.0 million to \$788.0 million. By December 2016, external reserves stood at \$904.0 million, reflecting an expansion of \$92.0 million over the prior year, and benefitting from the Government's foreign currency borrowing. As of June 30, 2017, external reserves were \$960.0 million, which is \$92.0 million less than in the first half of 2016 when the stock benefited from a foreign currency loan and a notable decline in the cost of oil imports due to lower global oil prices.

According to the Central Bank, external reserves as of December 31, 2016 were reported at an estimated 16.4 weeks of total merchandise imports, above the international benchmark of 3.0 months, while as of December 31, 2015 they were reported at an estimated 13.3 weeks. As of June 30, 2017, the import cover was 16.0 weeks, down from 19.5 weeks as of June 2016.

## 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, 2016, the total debt of the public corporations stood at \$1,582.7 million, of which \$719.3 million was contractually guaranteed by the Government. See "Public Sector Debt—Debt of Public Corporations." In fiscal year 2016/2017, the Government's subsidies to the SOEs approximated \$344.4 million and the budget for fiscal year 2017/2018 was approximately \$414.5 million.

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. For fiscal year 2016/2017 the Government provided financial support in the sum of \$47.7 million to public corporations (Bahamasair, WSC and the Broadcasting Corporation of The Bahamas) to ensure that they 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, as well as prospective short-term monetary assistance from the Government. As of the date of this offering memorandum, such technical noncompliance problems have been cured.

In June 2016, the Government capitalized, in the amount of approximately \$62.5 million, a special purpose holding company, HoldingCo2015 Limited, for the purpose of owning 51.75% of the shares of NewCo2015 (now Be Aliv Limited) which received the country's second mobile communication license. The remaining 48.25% is owned by Cable Bahamas Limited—the successful applicant under the request for proposal process. The Government has plans underway for the eventual sale of its shares to Bahamian nationals.

Under the Electricity Act, 2015, BPL, a wholly-owned subsidiary of The Bahamas Electricity Corporation, or "BEC," was established to provide for the generation and transmission of electricity for consumption on most islands in The Bahamas. For the period ended June 30, 2016, and covering the initial four months of operations, the consolidated balance sheet of BEC and BPL showed total assets of approximately \$802.4 million, total liabilities of approximately \$662.7 million and total shareholders' equity of approximately \$139.7 million. For the four month period ended June 30, 2016, the BEC recorded a consolidated net comprehensive loss of approximately \$0.917 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, 2015, WSC had total assets of approximately \$327.4 million, total liabilities of approximately \$188.3 million and total shareholders' equity of approximately \$139.1 million. For the year ended December 31, 2015, WSC recorded a net comprehensive loss of approximately \$12.7 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, 2016, Bahamasair had total assets of approximately \$168.25 million, total liabilities of approximately \$181.65 million and total shareholders' deficit of approximately \$13.40 million (comprising capital contributions of approximately \$567.85 million and an accumulated deficit of approximately \$590.50 million). For the fiscal year ended June 30, 2016, Bahamasair recorded a net comprehensive loss of approximately \$16.65 million. In the context of a financing transaction carried out by Bahamasair, the Government has contractually agreed to make periodical subventions to Bahamasair in an amount sufficient to ensure that Bahamasair can continue its business operations and, in any case, not lower than approximately \$150 million (the latter to be paid in multiple tranches up to February 2023). For a description of the debt of the public corporations, see "Public Sector Debt—Debt of Public Corporations."

Certain other public corporations or entities with substantial Government ownership 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 Limited, the Education Loan Authority, the Airport Authority and the Civil Aviation Authority.

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, 2016, the Central Bank had total assets of approximately \$1,681.6 million, total liabilities of approximately \$1,508.4 million and capital and reserves of approximately \$173.2 million. For the year ended December 31, 2016, the Central Bank recorded net comprehensive income of approximately \$12.3 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, 2015, the National Insurance Board had total assets of approximately \$1.8 billion, total liabilities of approximately \$84.5 million and reserves of approximately \$1.7 billion. For the year ended December 31, 2015, the National Insurance Board recorded total comprehensive income of approximately \$26.5 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 Lynden Pindling International Airport in Nassau, Bahamas. As of June 30, 2016, NAD had total assets of approximately \$517.8 million, total liabilities of approximately \$513.5 million and total shareholder's equity of approximately negative \$24.8 million. NAD's net comprehensive loss for the year ended June 30, 2016 was approximately \$13.6 million.

## **Energy Sector Reform**

Over the years, The Bahamas has taken significant steps toward energy sector reform, commencing with the publication, in August 2013, of the National Energy Policy. This policy serves as a roadmap to achieve total energy reform by the year 2033 through strategic steps such as fuel diversification, infrastructure modernization, renewable energy source development, conservation and efficiency. Among the energy goals set is a renewable energy target of 30% of the country's electricity production by 2030.

To pave the way for the reform, the Government introduced a new legal framework, the Electricity Act, 2015, Utilities Regulation and Competition Authority (Amendment) Act, 2015, and the Electricity Rate Reduction Bond Act, 2015. The Electricity Act, 2015 and corresponding repeal of the Electricity Act and Out Islands Electricity Act, provided for the diversification in the generation, supply, and distribution of electricity, in accordance with the National Energy Policy, including through renewable energy sources, and the modernization and consolidation of the law in relation to electrical installations.

Within the new legislative framework, the BEC's operations of generating and transmitting electricity were transferred to BPL, a wholly-owned subsidiary of BEC that was incorporated in September 2015. As part of the restructuring process, in February 2016 the Government entered into a five year management services agreement ("MSA") with the U.S. service provider PowerSecure (which was subsequently acquired by the Atlanta-based

Southern Company), to manage BPL, setting clear cost reduction and reliability targets along with renewable energy and customer service initiatives. However, in September 2017, the Government and Southern Company agreed to an amicable termination of the MSA.

Another element of the legislative changes was the expansion of the Utilities Regulation & Competition Authority's responsibilities to transform it into an independent regulator of the electricity sector. Such additional responsibilities include, *inter alia*, reviewing and approving electricity tariff rates charged to the consumer, reviewing the need for additional electricity generation by independent power producers, and establishing rules and approving competitive processes where applicable for procurement of power generation resources conducted by BPL, or any other public electricity supplier.

The Electricity Rate Reduction Bond Act, 2015, provided the legal framework and infrastructure to enable the issuance of such bonds, through the Rate Reduction Bond Company (a special purpose entity)—the purpose of which is to generate proceeds to be used for the payment and satisfaction of specified legacy debts of the BEC, to settle unfunded pension plan benefit obligations, and to fund generation expansion plans. The Rate Reduction Bond Company, in conjunction with BPL, intends to issue these bonds within the next 18 months.

At present, BPL 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 ("GBPC")), although the GBPC, through an arrangement with the Government of The Bahamas, provides electricity for the entire island of Grand Bahama.

## 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 then, together with the audit report, 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 Year 2017/2018 Budget

The fiscal year 2017/2018 budget forecasts an overall deficit of \$321.3 million, compared to an originally projected \$97.6 million budget deficit in fiscal year 2016/2017. While revenue receipts are expected to narrow by \$29.8 million (1.4%), to \$2.1 billion, compared to the fiscal year 2016/2017 budget owing in part to proposed tax rate and fee reductions on business and hotel licenses, the broader deficit is largely reflective of a \$194.0 million (8.6%) increase in approved expenditures to \$2.5 billion. The expected expansion in total outlays is attributed to a \$207.5 million (10.3%) rise compared to the 2016/2017 budget in current expenditures, which largely serves to cover projected increases in goods and services purchases (\$76.3 million), personal emoluments (\$46.8 million), transfers to households (\$33.0 million), general subsidies (\$23.9 million), and interest payments (\$20.7 million). In contrast, capital spending is budgeted at \$11.3 million (4.6%) lower, compared to the 2016/2017 budget at \$230.9 million. To cover financing requirements, the Government has planned total new borrowings of \$753.0 million (not



including the proceeds from the offering of notes contemplated in this offering memorandum). Total Government debt repayment for fiscal year 2017/2018 is projected at \$426.2 million, consisting of \$388.6 million in Bahamian dollars and \$37.6 million in foreign currency (not including the offering of notes contemplated in this offering memorandum). Such projected amounts do not include an additional \$174.0 million in estimated debt repayment for such fiscal year, attributable to refinancings and other items that were post-budget approvals, bringing the total Government debt repayment to \$600.2 million.

While fiscal data is available through the first eleven months of fiscal year 2016/2017, unpublished preliminary data for the twelve months of the fiscal year show a significantly higher overall deficit, of approximately \$700.0 million. The marked deviation from the fiscal year 2016/2017 budget target of \$100 million reflected a number of one-off impacts on both revenues and outlays. Specifically, Hurricane Matthew disrupted revenue collections and necessitated the grant of temporary tax relief, and expenditures were boosted by post hurricane clean-up and reconstruction activities, as well as pre-election spending, which included a sharp increase in the wage bill.

During the 2017/2018 Budget Communication, the Government announced enhanced plans for achieving a reduction in the deficit and debt—to be achieved through a combination of current expenditure controls, to be anchored in fiscal rules, and analytics-driven measures to improve tax compliance.

Expenditure control measures include: a targeted 10% cut in certain spending categories and freeze on hiring; enhancements to procurement arrangements, through improved rules and regulations and more medium-term initiatives, such as the use of public private partnerships for select capital projects, greater cost recovery and enhanced corporate governance at the SOEs; and transformation of the existing defined benefit pension scheme into a contributory regime. To underpin these initiatives, the Government has received technical assistance from the IMF for the implementation of fiscal responsibility legislation that contemplates targeting an annual balance budget deficit consistent with a more sustainable debt trajectory, limits on spending for salaries and related benefits and ceilings on contributions to the SOEs. The framework will be supported by ongoing reforms to modernize public financial management arrangements. Revenue optimization measures, which are already yielding notable returns, are predicated on a more aggressive stance on real property tax compliance to bring yields up to their potential levels—the use of domestic audits to ensure proper and timely filings relative to VAT and business license returns, and the utilization of risk-based approaches and post clearance audits for customs and excise tax collections.

The following table sets forth the Government's revenue, expenditure and financing transactions for fiscal years 2012/2013 through 2015/2016 and the first 11 months of fiscal year 2016/2017 and the budgets for fiscal year 2016/2017 and fiscal year 2017/2018.

	For the Years Ended June 30,				Fiscal	Budget	Budget
	2013 <sup>(p)</sup>	2014 <sup>(p)</sup>	2015 <sup>(p)</sup>	2016 <sup>(p)</sup>	Year-to-Date May 31, 2017 <sup>(p)(1)</sup>		
	(in millions of \$)						
<b>Revenue and Grants:</b>							
Tax revenue .....	1,215.5	1,245.5	1,500.5	1,676.2	1,640.1	1,968.5	1,941.6
Non-tax revenue.....	139.0	204.8	197.7	253.2	179.0	198.1	195.2
Capital revenue .....	—	—	3.1	—	—	—	—
Grants .....	0.1	0.4	0.4	0.1	—	2.2	2.2
Total .....	<u>1,354.6</u>	<u>1,450.8</u>	<u>1,701.5</u>	<u>1,929.6</u>	<u>1,819.2</u>	<u>2,168.8</u>	<u>2,139.0</u>
<b>Expenditure:</b>							
Current expenditure .....	1,546.0	1,596.8	1,711.3	2,005.0	1,846.1	2,024.4	2,231.9
Capital expenditure .....	258.3	252.4	280.3	231.3	258.4	242.1	230.9
Total .....	<u>1,804.3</u>	<u>1,849.1</u>	<u>1,991.6</u>	<u>2,236.3</u>	<u>2,104.5</u>	<u>2,266.5</u>	<u>2,462.8</u>
Net lending (repayment).....	96.4	81.7	92.0	3.6	0.1	(0.1)	(2.4)
<b>Overall budget deficit.....</b>	<b>(546.1)</b>	<b>(480.0)</b>	<b>(382.0)</b>	<b>(310.4)</b>	<b>(285.3)</b>	<b>(97.6)</b>	<b>(321.3)</b>
<b>Internal borrowing:</b>							
Bahamian dollars							
Treasury bills (net).....	294.1	81.0	30.0	301.2	137.6	—	—
Loans/advances.....	123.0	144.0	275.0	22.6	249.5	—	—

	For the Years Ended June 30,				Fiscal	Budget	Budget
	2013 <sup>(p)</sup>	2014 <sup>(p)</sup>	2015 <sup>(p)</sup>	2016 <sup>(p)</sup>	Year-to-Date May 31, 2017 <sup>(p)(1)</sup>		
	(in millions of \$)						
Government securities.....	375.0	115.0	275.0	87.3	545.0	—	—
Total .....	792.03	340.00	580.00	411.11	932.04	299.55	743.52
Foreign currency							
Loans .....	—	191.0	—	50.0	—	—	—
Government securities.....	—	—	—	—	—	—	—
Total .....	—	191.0	—	50.0	—	—	—
Total internal borrowing.....	792.03	531.00	580.00	461.11	932.04	299.55	743.52
External borrowing:							
Loans .....	239.8	142.2	148.1	214.8	35.5	85.1	9.5
Government securities.....	—	300.0	—	—	—	—	—
Total external borrowing .....	239.8	442.2	148.1	214.8	35.5	85.1	9.5
Debt repayment:							
Internal							
Bahamian dollars .....	237.0	366.8	140.0	244.3	556.7	258.9	388.6
Foreign currency .....	—	125.0	66.0	50.0	—	—	—
Total .....	237.0	491.8	206.0	294.3	556.7	258.9	388.6
External .....	13.5	13.9	15.4	28.5	35.1	28.2	37.6
Total debt repayment.....	250.5	505.7	221.4	322.8	591.8	287.1	426.2
Net borrowing (after debt repayment).....	781.3	467.5	506.7	353.2	375.7	97.6	326.8
Cash balance change increase (decrease).....	(27.6)	(50.8)	(76.8)	(110.4)	260.8	—	—

(1) According to estimates from the Ministry of Finance, the deficit for the full fiscal year 2016/2017 is expected to be approximately \$700.0 million. See “Government Finance—Fiscal Year 2017/2018 Budget.”

Sources: Treasury Accounts and Treasury Statistical Summaries.

## Revenues and Expenditures

The Government’s overall deficit increased to \$285.3 million over the first 11 months of fiscal year 2016/2017, from approximately \$252.4 million for the corresponding period in fiscal year 2015/2016. The fiscal year 2016/2017 deficit reflects additions to capital and current expenditures, alongside a sharp falloff in net lending. Further, revenue receipts strengthened, particularly from international trade, property and non-trade stamp taxes. The Government expects its overall deficit to increase in fiscal year 2017/2018 in comparison to the fiscal year 2016/2017 budget, due to growth in current expenditures, and reductions in both tax and non-tax revenues.

### *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, taxes on tourism activities and VAT. Historically, the majority of the revenue collected derived from taxes on international trade, which represented approximately 44.6% of tax revenue over the four fiscal years preceding VAT’s implementation in fiscal year 2014/2015. Comparatively, in fiscal year 2015/2016, following the full introduction of the new tax, taxes on international trade comprised 26.2% of total revenue, while VAT receipts made up 32.5%. Further, non-tax revenue, comprising various fees, services charges and property sales, has accounted for an estimated 13.12% of total revenue over the past five fiscal years.

The following table sets forth the Government’s current revenues for fiscal years 2012/2013 through 2015/2016 and the first 11 months of fiscal year 2016/2017 and the budgets for fiscal year 2016/2017 and fiscal year 2017/2018.

	For the Years Ended June 30,				Fiscal	Budget	Budget
	2013 <sup>(p)</sup>	2014 <sup>(p)</sup>	2015 <sup>(p)</sup>	2016 <sup>(p)</sup>	Year-to- Date May 31, 2017 <sup>(p)(1)</sup>	2016/2017	2017/2018
	(in millions of \$)						
<b>Tax revenue</b>							
Property tax .....	115.2	104.0	107.0	103.7	118.0	153.5	143.5
Selective tax on services .....	51.6	52.6	50.4	27.0	24.9	35.0	36.5
Business and professional .....	120.8	184.8	180.0	146.2	147.0	198.7	205.6
Motor vehicle tax .....	28.3	29.3	29.3	30.4	23.9	34.3	31.1
Departure tax .....	144.1	124.9	146.7	134.6	122.3	142.6	144.7
Import tax .....	332.0	335.8	306.7	264.5	262.0	335.0	315.0
Excise tax .....	246.2	248.8	262.1	229.9	229.1	300.3	275.0
Stamp tax from imports .....	17.6	—	—	—	—	—	—
Export tax .....	14.4	1.0	8.8	12.1	6.7	12.7	11.5
Stamp tax from exports .....	0.1	—	—	—	—	—	—
All other stamp tax .....	160.2	163.7	190.8	100.0	102.7	104.6	115.6
Value added tax .....	—	—	218.6	627.9	596.0	651.9	661.5
Other tax .....	—	—	—	—	8.6	—	1.5
<b>Total tax revenue<sup>(2)</sup></b> .....	<b>1,215.5</b>	<b>1,245.5</b>	<b>1,500.5</b>	<b>1,676.2</b>	<b>1,640.1</b>	<b>1,968.5</b>	<b>1,941.6</b>
<b>Non-tax revenue</b>							
Income .....	41.9	66.3	42.0	40.7	42.6	51.9	49.1
Public enterprises <sup>(3)</sup> .....	9.8	3.9	5.0	5.1	5.1	5.0	1.1
Other sources .....	32.1	62.4	37.1	35.6	37.6	46.8	48.0
Fines, forfeits and admin. Fees .....	95.3	137.1	154.8	210.7	135.9	145.0	144.8
Sales of Government property .....	1.7	1.3	0.7	1.6	0.4	1.2	1.3
Other .....	0.1	—	0.1	0.1	0.1	0.1	0.1
<b>Total non-tax revenue</b> .....	<b>139.0</b>	<b>204.8</b>	<b>197.7</b>	<b>253.2</b>	<b>179.0</b>	<b>198.1</b>	<b>195.2</b>
Capital revenue .....	—	—	3.1	0.1	0.1	—	—
Grants .....	0.1	0.4	0.4	0.1	—	2.2	2.2
<b>Total revenue and grants<sup>(2)</sup></b> .....	<b>1,354.6</b>	<b>1,450.8</b>	<b>1,701.5</b>	<b>1,929.6</b>	<b>1,819.2</b>	<b>2,168.8</b>	<b>2,139.0</b>
<b>Tax refunds</b> .....	<b>14.8</b>	<b>8.3</b>	<b>—</b>	<b>—</b>	<b>1.1</b>	<b>—</b>	<b>—</b>

(1) According to estimates from the Ministry of Finance, the deficit for the full fiscal year 2016/2017 is expected to be approximately \$700.0 million. See "Government Finance—Fiscal Year 2017/2018 Budget."

(2) Excludes tax refunds.

(3) Includes public corporations.

Sources: Treasury Accounts and Treasury Statistical Summaries.

### *Tax Reforms*

As part of the 2017/2018 Budget Communication, the Government announced its plan to reduce some tax rates. To lessen the tax burden of consumers and businesses, the Government plans to lower the maximum business license tax rate by 25 basis points to 1.25% of annual turnover. Similarly, licensing fees for hotels with turnovers exceeding \$400 million are due a 25 basis point reduction to 1.0% of gross turnover. Additionally, other taxes, such as customs duties on certain construction materials, including asphalt shingles, panel boards, durock and cement boards, have been eliminated to support activity within the construction sector.

The Bahamas applied to become a member of the WTO in September 2001. Currently, work is progressing to prepare for continued negotiations with trading partners, and to either update or create the legal and regulatory framework required for the implementation of the various WTO agreements. To date, The Bahamas has held two meetings with the WTO working party, with additional multilateral and bilateral negotiations required to finalize the Government's commitments. The current target date for WTO accession is year-end 2019.

In preparation for accession to the WTO, the Government has made a concerted effort to reduce the overall share of tariffs and duties as a percentage of total government revenue. As a consequence of a number of tax reform measures, the overall share of tariffs as a percentage of government revenue has decreased over the past four fiscal years (fiscal year 2011/2012 through fiscal year 2015/2016) from roughly 25% to 14%.

Utilizing the Government's most recent WTO goods' offer, the Government recently commissioned a vulnerability study to analyze the potential impacts on government revenue as a consequence of WTO accession, the results of which are currently under review.

However, given the inherent limitations of the analytical models used in the vulnerability study, the Government also intends to undertake a revenue study to develop a dynamic equilibrium model that would take into consideration both direct and indirect impacts of tariff reductions on Government revenue, thereby providing a more accurate assessment of potential revenue losses. It is anticipated that the results of the revenue study will be available in the first quarter of 2018.

### *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, general public service accounts for the largest category of expenditures, averaging approximately 28.7% of total spending over the past five years, followed by economic services (17.3%), education (14.6%), healthcare (14.5%) and interest payments (11.4%). Outlays on social services other than education and healthcare approximate 7.2% of total spending.

The following table sets forth the Government's expenditures, by functional classification, for fiscal years 2012/2013 through 2015/2016 and the first 11 months of fiscal year 2016/2017 and the budgets for fiscal year 2016/2017 and fiscal year 2017/2018.

	For the Years Ended June 30,				Fiscal	Budget	Budget
	2013 <sup>(p)</sup>	2014 <sup>(p)</sup>	2015 <sup>(p)</sup>	2016 <sup>(p)</sup>	Year-to- Date May 31, 2017 <sup>(p)(1)</sup>	2016/2017	2017/2018
	(in millions of \$)						
General public service:							
General administration.....	318.8	328.6	397.1	470.3	535.8	558.9	660.1
Public order & safety.....	197.4	188.5	188.4	182.7	172.0	199.2	208.2
Total general public service.....	516.2	517.1	585.6	653.0	707.8	758.1	868.3
Defense .....	54.4	118.9	147.0	82.8	73.0	83.9	76.7
Education .....	287.8	276.2	265.2	303.9	282.2	300.1	313.5
Health.....	271.6	270.6	281.9	298.4	285.6	295.0	338.7
Social benefits and services:							
General administration, regulation and research.....	40.0	41.9	45.5	35.7	30.7	37.0	37.2
Old age, disability and services.....	67.7	73.2	79.7	86.0	77.5	86.7	97.8
Other public assistance .....	22.6	23.2	24.8	29.0	24.1	29.6	45.7
Collective social services.....	0.6	0.6	1.2	1.5	1.9	2.4	7.5
Total social benefits and services .....	130.94	138.81	151.15	152.29	134.14	155.78	188.13
Housing .....	3.7	3.7	4.3	3.8	3.3	11.7	11.6
Other community and social services .....	19.5	22.2	28.0	45.9	47.2	31.4	30.4
Economic services:							
Agriculture and fisheries.....	14.3	14.8	12.4	26.7	27.1	28.8	32.1
Land survey and meteorological.....	4.4	3.9	3.7	3.4	6.1	3.9	4.9
Transportation:							
Central ministry.....	9.7	9.2	9.3	9.0	11.6	13.9	9.9
Road transportation division.....	5.3	4.6	4.8	4.2	3.7	4.4	5.4
Air transportation .....	30.5	15.3	13.1	27.1	23.1	14.6	17.1
Water transportation.....	—	0.3	2.4	—	0.1	—	—
Total transportation .....	45.5	29.3	29.5	40.3	38.5	32.9	32.4
Post office.....	3.8	3.4	3.0	3.1	3.5	3.7	4.7
Labor employment services .....	5.0	5.4	5.4	5.1	4.6	5.2	5.1
Communications.....	—	—	—	—	—	—	—
Hotel affairs and services.....	—	—	—	0.8	0.8	1.0	1.0
Tourism .....	70.7	82.6	91.8	134.9	64.9	81.6	92.1
Public works and water supply .....	178.5	150.4	149.4	204.4	178.3	201.6	170.7
Other.....	—	—	—	2.4	2.8	—	—
Total economic services .....	322.2	289.8	295.2	421.1	326.5	358.8	342.9
Unallocable:							

	For the Years Ended June 30,				Fiscal	Budget	Budget
	2013 <sup>(p)</sup>	2014 <sup>(p)</sup>	2015 <sup>(p)</sup>	2016 <sup>(p)</sup>	Year-to-Date May 31, 2017 <sup>(p)(1)</sup>	2016/2017	2017/2018
	(in millions of \$)						
Public debt (interest)							
Internal							
Bahamian Dollar .....	142.3	148.3	153.2	191.0	161.7	184.7	209.6
Foreign Currency .....	—	0.4	1.1	1.1	—	—	—
Total internal .....	142.3	148.7	154.4	192.1	161.7	184.7	209.6
External .....	55.8	63.1	79.0	82.9	83.1	87.1	82.9
Total unallocable .....	198.0	211.8	233.4	275.0	244.8	271.7	292.5
Total expenditure .....	1,804.3	1,849.1	1,991.6	2,236.3	2,104.5	2,266.5	2,462.8

(1) According to estimates from the Ministry of Finance, the deficit for the full fiscal year 2016/2017 is expected to be approximately \$700.0 million. See “Government Finance—Fiscal Year 2017/2018 Budget.”

Sources: Treasury Accounts and Treasury Statistical Summaries.

The following table sets forth the Government’s expenditures for fiscal years 2012/2013 through 2015/2016 and the first 11 months of fiscal year 2016/2017 and the budgets for fiscal year 2016/2017 and fiscal year 2017/2018.

	For the Years Ended June 30,				Fiscal	Budget	Budget
	2013 <sup>(p)</sup>	2014 <sup>(p)</sup>	2015 <sup>(p)</sup>	2016 <sup>(p)</sup>	Year-to-Date May 31, 2017 <sup>(p)(1)</sup>	2016/2017	2017/2018
	(in millions of \$)						
<b>Current expenditure:</b>							
Consumption:							
Purchases of goods and services .....	354.0	308.5	331.1	330.3	328.7	381.9	458.2
Personal emoluments .....	594.0	624.1	640.2	665.3	634.6	733.6	780.4
Total consumption .....	948.0	932.5	971.3	995.6	963.3	1,115.5	1,238.6
Transfer payments <sup>(2)</sup> .....	598.0	664.2	740.0	1,009.4	882.8	908.9	993.4
Interest payments .....	198.0	211.8	233.4	275.0	244.8	271.7	292.5
Internal borrowings .....	142.3	148.7	154.4	192.1	161.7	184.7	209.6
Bahamian dollars .....	142.3	148.3	153.2	191.0	161.7	184.7	209.6
Foreign currency .....	—	0.4	1.1	1.1	—	—	—
External borrowings .....	55.8	63.1	79.0	82.9	83.1	87.1	82.9
Subsidies and other transfers:							
Subsidies .....	212.3	249.6	306.3	374.4	307.1	330.4	354.3
Transfers to nonfinancial public enterprises <sup>(3)</sup> .....	14.9	15.6	15.4	15.8	15.2	18.3	21.7
Transfers to public corporations <sup>(4)</sup> .....	14.9	8.4	6.5	116.9	138.9	107.6	109.2
Transfers to households .....	105.0	115.0	120.7	145.8	119.1	127.8	160.8
Transfers to non-profit institutions .....	42.4	34.8	43.9	57.3	46.1	39.1	40.8
Transfers abroad .....	10.4	29.0	13.9	24.2	11.5	14.0	14.0
Total subsidies and other transfers .....	400.0	452.4	506.6	734.4	638.0	637.2	700.9
Total current expenditure .....	1,546.0	1,596.8	1,711.3	2,005.0	1,846.1	2,024.4	2,231.9
<b>Capital expenditure:</b>							
Capital formation .....	208.4	155.9	164.4	172.9	198.4	159.9	158.3
Acquisition of assets							
Land .....	5.2	12.0	14.7	10.9	7.3	11.6	11.6
Equities .....	6.8	1.2	—	4.0	19.1	40.0	35.0
Other .....	19.0	80.6	98.0	43.5	33.6	30.6	24.8
Total acquisition of assets .....	31.0	93.9	112.8	58.4	60.0	82.2	71.5
Transfers to nonfinancial public enterprises .....	16.7	1.5	3.1	—	—	—	—
Transfers to public corporations <sup>(5)</sup> .....	2.2	1.1	—	—	—	—	1.1
Total capital expenditures .....	258.3	252.4	280.3	231.3	258.4	242.1	230.9
Total expenditure .....	1,804.3	1,849.1	1,991.6	2,236.3	2,104.5	2,266.5	2,462.8

(1) According to estimates from the Ministry of Finance, the deficit for the full fiscal year 2016/2017 is expected to be approximately \$700.0 million. See “Government Finance—Fiscal Year 2017/2018 Budget.”

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

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

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

(5) 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, 2016, the public sector debt of The Bahamas totaled approximately \$7,898.3 million, including approximately \$719.3 million in guaranteed public corporation debt and approximately \$863.4 million which represented non-Government-guaranteed debt of the public corporations. Of the approximately \$6,315.6 million in direct debt obligations of the Government, approximately \$4,570.1 million (or 72.4%) represented debt denominated in Bahamian dollars and the balance of approximately \$1,745.5 million (or 27.6%) 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 resolutions of the House of Assembly dated May 31, 2017 and June 20, 2017, which authorize the Minister of Finance to borrow approximately \$1,322.2 million in U.S. dollars. 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.

Section 17 of the Financial Administration and Audit (Amendment) Act, 2012, provides for the Government to borrow short-term by way of advances from banks, insurance companies and money lending institutions and by way of Treasury bills. The borrowing constraint is placed at 60% of the average ordinary revenue—the greater of the latest three years’ average ordinary revenue and the estimated revenue for the current budget year.

By the Central Banks’ statute, short-term advances 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. As of December 31, 2016, the Central Bank’s advances to the Government were approximately \$134.7 million, which represents 9.5% of average ordinary revenue for fiscal years 2010/2011, 2011/2012 and 2012/2013 and 6.2% of estimated ordinary revenue for fiscal year 2016/2017. The Central Bank’s statute also limits its portfolio of government securities with maturities of five or more years to 20% of the Central Bank’s demand liabilities. During 2017, when the Central Bank participated in the Government’s \$150 million hurricane relief loan, with an investment of \$20 million in a bond issuance, this ratio rose marginally above the 20% statutory ceiling for a few months. However, subsequent sales of bonds by the Central Bank resulted in the statutory ratio being gradually reduced, to 12.52% by September 2017.

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 following table sets forth the national debt of The Bahamas as of December 31, 2012 through December 31, 2016 and June 30, 2017.

	As of December 31,					As of
	2012 <sup>(p)</sup>	2013 <sup>(p)</sup>	2014 <sup>(p)</sup>	2015 <sup>(p)</sup>	2016 <sup>(p)</sup>	June 30, 2017 <sup>(p)</sup>
	(in millions of \$)					
<b>Direct charge</b>						
<b>External debt (by instrument)</b>						
Government securities .....	600.0	600.0	900.0	900.0	900.0	900.0
Loans .....	442.7	590.1	672.4	741.2	845.5	855.7
Total external debt.....	1,042.7	1,190.1	1,572.4	1,641.2	1,745.5	1,755.7
<b>External debt (by holder)</b>						
Commercial banks .....	—	—	—	—	—	—
Offshore financial institutions.....	—	—	—	—	—	—
Bilateral financial institutions .....	46.1	67.1	70.7	72.4	80.8	82.9
International financial institutions.....	216.7	239.9	237.0	221.3	217.0	216.1
Private capital markets.....	600.0	600.0	900.0	900.0	900.0	900.0
Other financial institutions.....	180.0	283.1	364.7	447.5	547.7	556.7
<b>Internal debt (by instrument)</b>						
Foreign currency:						
Government securities.....	—	—	—	—	—	—
Loans.....	—	125.0	—	36.6	—	—
Total foreign currency.....	—	125.0	—	36.6	—	—
Bahamian dollars:						
Advances.....	105.7	134.7	134.7	134.7	134.7	134.7
Treasury bill.....	349.1	579.3	579.3	816.5	793.9	870.6
Government securities.....	2,872.3	2,956.5	3,025.5	3,072.8	3,314.8	3,454.8
Loans.....	30.2	0.2	270.2	202.8	326.8	326.5
Total Bahamian dollars .....	3,357.3	3,670.7	4,009.7	4,226.7	4,570.1	4,786.5
Total internal debt.....	3,357.3	3,795.7	4,009.7	4,263.4	4,570.1	4,786.5
<b>Internal debt (by holder)</b>						
Foreign currency.....	—	125.0	—	36.6	—	—
Commercial banks.....	—	125.0	—	36.6	—	—
Other local financial institutions.....	—	—	—	—	—	—
Bahamian dollars .....	3,357.3	3,670.7	4,009.7	4,226.7	4,570.1	4,786.5
The central bank.....	405.0	542.4	567.4	519.5	727.5	856.3
Commercial banks.....	1,187.8	1,345.7	1,585.8	1,708.5	1,779.0	1,829.5
Other local financial institutions.....	9.4	9.4	10.2	26.4	14.2	28.2
Public corporations.....	730.2	684.9	665.3	650.3	600.7	612.7
Other .....	1,025.0	1,088.2	1,181.0	1,322.0	1,448.8	1,459.9
<b>Total direct charge</b> .....	4,400.1	4,985.8	5,582.1	5,904.6	6,315.6	6,542.2
<b>Contingent liabilities</b>						
Bahamas Development Bank.....	51.0	50.2	50.2	50.1	46.1	46.1
Bahamas Electricity Corporation .....	224.9	218.6	246.0	242.9	227.6	215.3
Bahamas Water & Sewerage Corp.....	21.7	33.2	51.7	60.5	68.7	73.9
Bridge Authority.....	28.0	28.0	23.0	23.0	23.0	23.0
Broadcasting Corporation .....	—	—	—	—	—	—
Bahamasair .....	7.0	5.9	4.8	9.0	—	—
Bahamas Mortgage Corporation .....	166.5	166.5	165.0	165.0	165.0	165.0
Educational Guarantee Fund.....	6.7	6.5	6.3	7.1	7.0	6.9
Hurricane Loan Programme.....	3.3	3.2	3.1	3.0	2.9	2.9
Education Loan Authority.....	67.0	67.0	67.0	67.0	67.0	67.0
Hotel Corporation .....	—	—	—	—	—	—
Airport Authority.....	2.2	—	—	—	—	—
The Clifton Heritage Authority.....	24.0	24.0	24.0	24.0	24.0	24.0
Public Hospitals Authority.....	4.5	1.5	61.6	103.8	97.9	96.7
Total Contingent Liabilities.....	606.8	604.6	702.6	755.3	729.2	720.7
<b>Total national debt</b> .....	5,006.9	5,590.3	6,284.7	6,659.9	7,044.7	7,262.9

(1) External plus internal foreign currency debt.

As the above table shows, total Government debt has increased since 2012, 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 June 30, 2017.

<b>Remaining Years Until Maturity</b>	<b>Bahamian Dollar</b>	<b>Foreign Currency</b>
Less than 5 .....	53.1%	7.8%
5-10 years .....	19.5%	40.8%
10-15 years .....	14.6%	22.0%
15 years or more .....	12.8%	29.4%
<b>Total.....</b>	<b>100.0%</b>	<b>100.0%</b>

Source: Central Bank.

### Internal Debt

Total direct internal Government debt was approximately \$4,786.5 million as of June 30, 2017, representing an increase of approximately 13.7% over the corresponding amount as of June 30, 2016. 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 as of December 31, 2012 through December 31, 2016 and June 30, 2017.

	<b>As of December 31,</b>					<b>As of June 30,</b>
	<b>2012<sup>(p)</sup></b>	<b>2013<sup>(p)</sup></b>	<b>2014<sup>(p)</sup></b>	<b>2015<sup>(p)</sup></b>	<b>2016<sup>(p)</sup></b>	<b>2017<sup>(p)</sup></b>
	(in millions of \$)					
<b>Bahamian Dollars</b>						
The Central Bank.....	405.0	542.4	567.4	519.5	727.5	856.3
Commercial banks .....	1,187.8	1,345.7	1,585.8	1,708.5	1,779.0	1,829.5
Other local financial institutions .....	9.4	9.4	10.2	26.4	14.2	28.2
Public corporations .....	730.2	684.9	665.3	650.3	600.7	612.7
Other .....	1,025.0	1,088.2	1,181.0	1,322.0	1,448.8	1,459.9
<b>Total .....</b>	<b>3,357.3</b>	<b>3,670.7</b>	<b>4,009.7</b>	<b>4,226.7</b>	<b>4,570.1</b>	<b>4,786.5</b>
<b>Foreign currency</b>						
Commercial banks .....	—	125.0	—	36.6	—	—
Other local financial institutions .....	—	—	—	—	—	—
<b>Total .....</b>	<b>—</b>	<b>125.0</b>	<b>—</b>	<b>36.6</b>	<b>—</b>	<b>—</b>
<b>Total direct internal debt.....</b>	<b>3,357.3</b>	<b>3,795.7</b>	<b>4,009.7</b>	<b>4,263.4</b>	<b>4,570.1</b>	<b>4,786.5</b>

Sources: Treasury Accounts and Treasury Statistical Summaries.

As of June 30, 2017, internal debt represented 73.2% of The Bahamas' total direct Government debt. The entire \$4,786.5 million in total internal direct debt of the Government at June 30, 2017 was denominated in Bahamian dollars. Between 2012 and June 30, 2017, internal direct debt rose by approximately 42.6%.

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 \$1,755.7 million as of June 30, 2017, representing a marginal 0.1% increase compared to the corresponding amount as of June 30, 2016. 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, 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.
- In January 2014, The Bahamas completed an offering in the international capital markets of U.S.\$300.0 million of 5.750% Notes due 2024. The 5.750% Notes, which will mature on January 16, 2024, provide for semi-annual interest payments.

The following table sets forth the composition of the direct external debt of the Government by holders of such debt as of December 31, 2012 through December 31, 2016 and June 30, 2017.

	As of December 31,					As of
	2012 <sup>(p)</sup>	2013 <sup>(p)</sup>	2014 <sup>(p)</sup>	2015 <sup>(p)</sup>	2016 <sup>(p)</sup>	June 30, 2017 <sup>(p)</sup>
	(in millions of \$)					
Bilateral .....	46.1	67.1	70.7	72.4	80.8	82.9
International financial institutions .....	216.7	239.9	237.0	221.3	217.0	216.1
Private capital markets .....	600.0	600.0	900.0	900.0	900.0	900.0
Other financial institutions.....	180.0	283.1	364.7	447.5	547.7	556.7
Total .....	<u>1,042.7</u>	<u>1,190.1</u>	<u>1,572.4</u>	<u>1,641.2</u>	<u>1,745.5</u>	<u>1,755.7</u>

Sources: Treasury Accounts and Treasury Statistical Summary Printouts.

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

As of June 30, 2017, the external debt of the Government accounted for approximately 26.8% of direct charge.

## Foreign Currency Debt

The following table sets forth the composition of the foreign currency-denominated public sector debt (including the debt of public corporations) as of December 31, 2012 through December 31, 2016 and June 30, 2017.

	As of December 31,					As of
	2012 <sup>(p)</sup>	2013 <sup>(p)</sup>	2014 <sup>(p)</sup>	2015 <sup>(p)</sup>	2016 <sup>(p)</sup>	June 30, 2017
	(in millions of \$)					
Direct internal debt.....	—	125.00	—	36.62	—	—
Direct external debt.....	1,042.7	1,190.1	1,572.4	1,641.2	1,745.5	1,755.7
Total direct debt.....	1,042.7	1,315.1	1,572.4	1,677.8	1,745.5	1,755.7
Government-guaranteed debt of Public Corporations.....	257.6	258.1	319.3	345.7	327.6	319.2
Total.....	1,300.3	1,573.2	1,891.7	2,023.5	2,073.0	2,074.9
Non-Government-guaranteed debt.....	593.9	566.5	561.3	550.5	573.7	566.3
Total.....	1,894.2	2,139.7	2,453.0	2,574.0	2,646.8	2,641.3

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 as of December 31, 2012 through December 31, 2016 and June 30, 2017.

	As of December 31,					As of
	2012 <sup>(p)</sup>	2013 <sup>(p)</sup>	2014 <sup>(p)</sup>	2015 <sup>(p)</sup>	2016 <sup>(p)</sup>	June 30, 2017 <sup>(p)</sup>
	(in millions of \$)					
<b>Multilateral:</b>						
Inter-American Development Bank.....	228.2	263.6	279.8	274.2	276.4	280.4
World Bank.....	—	—	—	—	—	—
European Union, European Investment Bank.....	4.5	3.4	1.9	0.7	0.6	0.6
Caribbean Development Bank.....	6.7	6.4	7.1	7.1	8.9	9.1
Total multilateral.....	239.4	273.3	288.9	281.9	285.8	290.1
<b>Bilateral:</b>						
Export/Import Bank of China.....	46.1	67.1	70.7	72.4	80.8	82.9
Export Development Bank of Canada.....	—	—	—	—	—	—
Total bilateral.....	46.1	67.1	70.7	72.4	80.8	82.9
<b>Commercial Banks/Int'l Fin. Institutions.....</b>	526.7	735.0	724.6	848.8	919.9	908.1
<b>Other/Int'l Investors.....</b>	1,082.1	1,064.3	1,368.8	1,370.9	1,360.2	1,360.1
Total foreign currency public sector debt.....	1,894.2	2,139.7	2,453.0	2,574.0	2,646.8	2,641.3

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 Euribor or the U.S. prime rate. The profile of foreign currency public sector debt (including non-Government guaranteed debt of public corporations) as of June 30, 2017 was as follows:

Currency	% Share
U.S. dollar.....	84.3
Swiss franc.....	3.8
European Currency Units.....	8.8
Chinese Yuan.....	3.1
Total.....	100.0

## Bahamian Dollar Debt

Public sector debt denominated in Bahamian dollars increased by approximately 36.1% between 2012 and 2016. As of December 31, 2016, public sector Bahamian dollar-denominated public debt (including the debt of public corporations) consisted of approximately \$4,570.1 million in direct debt from domestic bank loans and securities issued and a total of approximately \$681.4 million of total public corporation debt (of which approximately \$391.7 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 as of December 31, 2012 through December 31, 2016 and June 30, 2017.

	As of December 31,					As of
	2012 <sup>(p)</sup>	2013 <sup>(p)</sup>	2014 <sup>(p)</sup>	2015 <sup>(p)</sup>	2016 <sup>(p)</sup>	June 30, 2017 <sup>(p)</sup>
	(in millions of \$)					
Total internal debt .....	3,357.3	3,670.7	4,009.7	4,226.7	4,570.1	4,786.5
Government-guaranteed debt .....	339.3	336.8	374.0	399.6	391.7	391.7
Total .....	3,696.57	4,007.41	4,383.66	4,626.37	4,961.81	5,178.25
Non-Government-guaranteed debt .....	179.8	199.8	265.1	259.7	289.7	282.7
Total (including non-Government guaranteed debt).....	3,876.4	4,207.2	4,648.8	4,886.0	5,251.5	5,460.9

Sources: Treasury Accounts and Public Corporations Reports.

## Debt of Public Corporations

In light of the Government's ownership interest in various public corporations, the Government is a guarantor by contract of certain indebtedness of such 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 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) as of the years ended December 31, 2012 through December 31, 2016 and the six months ended June 30, 2017.

	As of the Years Ended December 31,					As of the
	2012 <sup>(p)</sup>	2013 <sup>(p)</sup>	2014 <sup>(p)</sup>	2015 <sup>(p)</sup>	2016 <sup>(p)</sup>	Six Months Ended June 30, 2017 <sup>(p)</sup>
	(in millions of \$)					
<b>External debt:</b>						
Government-guaranteed loans						
Bahamas Electricity Corporation.....	—	—	83.2	82.2	77.0	72.8
Water and Sewerage Corporation.....	21.7	33.2	51.7	60.5	68.7	73.9
Bahamas Development Bank .....	1.0	0.2	0.2	0.1	0.1	0.1
Total .....	22.7	33.4	135.1	142.8	145.8	146.8
Non-Government-guaranteed loans						
Bahamasair.....	—	—	—	—	95.0	91.7
Nassau Airport Development Company.....	399.2	392.6	393.0	391.8	386.7	385.5
Total .....	399.2	392.6	393.0	391.8	481.7	477.3
Total external debt .....	421.9	426.0	528.1	534.6	627.5	624.1
<b>Internal debt:</b>						
Bahamian dollars						
Government- guaranteed loans						
Bahamas Mortgage Corp. ....	166.5	166.5	165.0	165.0	165.0	165.0
Bahamas Development Bank .....	50.0	50.0	50.0	50.0	46.0	46.0
Bahamasair .....	—	—	—	—	—	—
Bridge Authority.....	28.0	28.0	23.0	23.0	23.0	23.0
Education Loan Authority .....	67.0	67.0	67.0	67.0	67.0	67.0
The Clifton Heritage Authority.....	24.0	24.0	24.0	24.0	24.0	24.0
Water and Sewerage Corporation .....	3.8	1.3	45.0	70.6	66.7	66.7
Total .....	339.3	336.8	374.0	399.6	391.7	391.7
Non-Government-guaranteed loans						
Bahamas Electricity Corporation.....	43.0	43.0	43.0	43.0	35.5	35.5
Water and Sewerage Corporation .....	—	4.7	9.2	15.5	17.6	13.7
Bahamas Development Bank .....	4.8	4.4	4.0	3.6	3.6	3.6
Hotel Corporation.....	0.5	0.5	0.5	0.5	0.5	0.5
Bahamasair .....	—	—	—	—	25.0	24.1
Bahamas Broadcasting Corporation.....	—	—	—	4.1	4.0	4.0
College of The Bahamas.....	31.7	29.4	27.2	24.9	22.6	20.4
Nassau Airport Development Co. ....	66.7	61.1	63.0	62.7	61.5	61.6
Public Hospitals Authority.....	33.0	56.7	18.3	—	—	—
Resolve Bahamas Limited .....	—	—	100.0	100.0	100.0	100.0
Bridge Authority.....	—	—	—	5.3	5.3	5.3
Poiciana SPV Limited.....	—	—	—	—	14.0	14.0
Total .....	179.8	199.8	265.1	259.7	289.7	282.7
Total Bahamian dollar .....	519.0	536.5	639.1	659.3	681.4	674.4
Foreign currency						
Government-guaranteed loans						
Bahamas Electricity Corporation.....	224.9	218.6	162.8	160.8	150.6	142.4
Bahamasair.....	7.0	5.9	4.8	9.0	—	—
Airport Authority .....	2.2	—	—	—	—	—
Public Hospitals Authority .....	0.8	0.3	16.6	33.2	31.2	30.0
Total .....	234.8	224.7	184.2	202.9	181.8	172.4
Non-Government-guaranteed loans						
Bahamas Electricity Corporation.....	114.9	105.2	95.6	85.9	18.5	14.5
Bahamas Telecommunication Corporation.....	—	—	—	—	—	—
Public Hospitals Authority .....	3.3	3.3	3.3	—	—	—
Nassau Airport Development Company .....	76.5	65.3	69.4	72.8	73.5	74.6
Total .....	194.7	173.8	168.3	158.7	92.0	89.1
Total internal foreign currency .....	429.6	398.6	352.5	361.6	273.8	261.5
Total internal debt .....	948.6	935.1	991.6	1,020.9	955.2	935.9
Total foreign currency debt <sup>(1)</sup> .....	851.5	824.6	880.6	896.2	901.3	885.6
Total debt .....	1,370.5	1,361.1	1,519.7	1,555.5	1,582.7	1,559.9

(1) 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 as of and for the years ended December 31, 2012 through December 31, 2016 and the six months ended June 30, 2017.

	As of and for the Years Ended December 31,					As of and for the Six Months Ended June 30, 2017 <sup>(p)</sup>
	2012 <sup>(p)</sup>	2013 <sup>(p)</sup>	2014 <sup>(p)</sup>	2015 <sup>(p)</sup>	2016 <sup>(p)</sup>	
<b>Foreign currency:</b>						
Total debt service as a percentage of exports of goods and non-factor services.....	5.5	4.9	16.0	5.4	9.9	6.4
Debt service/GDP.....	1.9	1.7	5.3	1.6	3.0	n.a
Public sector debt/GDP.....	17.7	20.0	22.6	22.9	23.5	n.a
<b>Bahamian dollars:</b>						
Debt service/GDP.....	3.3	4.3	4.4	4.3	5.0	n.a
Public sector debt/GDP.....	36.2	39.4	42.9	43.5	46.6	n.a

Sources: Treasury Accounts and the Central Bank.

During the five-year period ended December 31, 2016, foreign currency debt service accounted for an average of 2.7% of GDP and Bahamian dollar debt service accounted for an average of 4.3% of GDP. The foreign currency public sector debt-to-GDP ratio rose from 17.7% in 2012 to 23.5% in 2016. Likewise, Bahamian dollar public sector debt-to-GDP ratio expanded from 36.2% in 2012 to 46.6% in 2016. 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) as of and for the years ended December 31, 2012 through December 31, 2016 and the six months ended June 30, 2017.

	As of and for the Years Ended December 31,					As of and For the Six Months Ended June 30, 2017 <sup>(p)</sup>
	2012 <sup>(p)</sup>	2013 <sup>(p)</sup>	2014 <sup>(p)</sup>	2015 <sup>(p)</sup>	2016 <sup>(p)</sup>	
(in millions of \$, except %)						
<b>Foreign currency:</b>						
Government.....	62.4	71.5	280.4	101.4	170.7	61.4
Public corporations.....	141.5	105.4	289.4	83.2	166.7	59.0
Total foreign currency debt service.....	203.9	176.9	569.8	184.6	337.4	120.4
Government debt service to Government revenue (%).....	4.5	5.3	19.0	5.3	9.1	n.a.
<b>Bahamian dollars:</b>						
Government.....	297.5	419.4	380.6	421.8	639.2	248.5
Public corporations.....	57.2	44.6	93.9	57.5	47.8	18.3
Total.....	354.6	464.0	474.5	479.3	687.0	266.8
Government debt service to Government revenue (%).....	21.3	31.0	25.8	22.1	33.9	n.a
Total debt service.....	558.6	640.9	1,044.3	663.9	1,024.4	387.2

Sources: Treasury Accounts and Public Corporations Reports.

Bahamian dollar debt service requirements nearly doubled from \$354.6 million in 2012 to \$687.0 million in 2016. Foreign currency debt service increased from approximately \$203.9 million to approximately \$337.4 million over the same period. In recent years, 2014 being the only exception, the debt service requirements for Bahamian

dollar debt have outweighed such requirements for foreign currency debt, consistent with the higher Bahamian dollar debt burden. Between 2012 and 2016, the ratio of foreign currency debt service to Government revenues has fluctuated, peaking at 19.0% in 2014, but averaging 8.6% over the last five years.

The following table sets forth the projected public sector debt service schedule (including the debt service of the public corporations) as of June 30, 2017. The table does not give effect to the issuance of the notes offered hereby.

	<u>Jul-Dec</u> <u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>
<b>Amortization:</b>											
Bahamian dollars											
Government .....	328.8	497.7	221.1	219.9	235.1	282.9	143.2	175.8	146.9	165.4	155.3
Public corporations .....	59.2	38.1	11.3	21.6	34.2	15.7	59.8	71.2	55.6	57.8	11.9
Total .....	<u>388.0</u>	<u>535.8</u>	<u>232.4</u>	<u>241.5</u>	<u>269.3</u>	<u>298.6</u>	<u>203.0</u>	<u>247.0</u>	<u>202.5</u>	<u>223.2</u>	<u>167.2</u>
Foreign currency											
Government .....	20.7	315.8	273.9	151.6	70.5	242.1	62.1	354.3	25.4	19.3	15.8
Public corporations .....	26.5	88.7	161.5	18.8	18.8	18.8	24.6	5.3	5.1	5.1	5.1
Total .....	<u>47.2</u>	<u>404.5</u>	<u>435.4</u>	<u>170.4</u>	<u>89.3</u>	<u>260.9</u>	<u>86.7</u>	<u>359.6</u>	<u>30.5</u>	<u>24.4</u>	<u>20.9</u>
Total amortization .....	<u>435.2</u>	<u>940.3</u>	<u>667.8</u>	<u>411.9</u>	<u>358.6</u>	<u>559.5</u>	<u>289.7</u>	<u>606.6</u>	<u>233.0</u>	<u>247.6</u>	<u>188.1</u>
<b>Interest:</b>											
Bahamian dollars											
Government .....	81.9	150.2	136.0	126.2	116.3	106.6	99.2	91.4	82.8	76.2	68.5
Public corporations .....	17.0	32.0	29.9	29.0	27.8	25.7	24.4	21.7	16.3	14.1	11.4
Total .....	<u>98.9</u>	<u>182.2</u>	<u>165.9</u>	<u>155.2</u>	<u>144.1</u>	<u>132.3</u>	<u>123.6</u>	<u>113.1</u>	<u>99.1</u>	<u>90.3</u>	<u>79.9</u>
Foreign currency											
Government .....	43.9	111.7	98.9	86.6	80.4	78.3	67.6	57.3	47.5	47.1	46.7
Public corporations .....	27.1	51.6	46.0	41.0	39.8	38.7	36.8	36.4	36.1	36.0	35.7
Total .....	<u>71.0</u>	<u>163.3</u>	<u>144.9</u>	<u>127.6</u>	<u>120.2</u>	<u>117.0</u>	<u>104.4</u>	<u>93.7</u>	<u>83.6</u>	<u>83.1</u>	<u>82.4</u>
Total interest .....	<u>169.9</u>	<u>345.4</u>	<u>310.7</u>	<u>282.8</u>	<u>264.3</u>	<u>249.3</u>	<u>228.0</u>	<u>206.8</u>	<u>182.7</u>	<u>173.4</u>	<u>162.3</u>
<b>Total debt service:</b>											
Bahamian dollars											
Government .....	410.7	647.9	357.1	346.1	351.4	389.5	242.4	267.2	229.7	241.6	223.8
Public corporations .....	76.2	70.1	41.2	50.6	62.0	41.4	84.2	92.9	71.9	71.9	23.3
Total .....	<u>486.9</u>	<u>718.0</u>	<u>398.3</u>	<u>396.7</u>	<u>413.4</u>	<u>430.9</u>	<u>326.6</u>	<u>360.1</u>	<u>301.6</u>	<u>313.5</u>	<u>247.1</u>
Foreign currency											
Government .....	64.6	427.4	372.8	238.2	151.0	320.4	129.7	411.6	72.9	66.4	62.5
Public corporations .....	53.6	140.3	207.5	59.8	58.6	57.5	61.4	41.7	41.2	41.1	40.8
Total .....	<u>118.2</u>	<u>567.7</u>	<u>580.3</u>	<u>298.0</u>	<u>209.6</u>	<u>377.9</u>	<u>191.1</u>	<u>453.3</u>	<u>114.1</u>	<u>107.5</u>	<u>103.3</u>
Total debt service .....	<u>605.1</u>	<u>1285.7</u>	<u>978.5</u>	<u>694.7</u>	<u>623.0</u>	<u>808.8</u>	<u>517.7</u>	<u>813.4</u>	<u>415.7</u>	<u>421.0</u>	<u>350.4</u>

Sources: Central Bank

Note: The table above does not give effect to issuance of the notes offered hereby. The table includes forecasted interest and amortization for facilities obtained after June 30, 2017.

## 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 will be issued under a Fiscal Agency Agreement, to be dated as of November 21, 2017, 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 SA/NV, Luxembourg Branch. 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 will initially be issued in an aggregate principal amount of \$750 million, will bear interest from November 21, 2017 at a rate per annum of 6.000% and will mature at par on November 21, 2028. The Government will pay the principal amount of the notes in three equal annual installments on November 21, 2026, November 21, 2027, and at maturity on November 21, 2028. Interest on the notes will be payable semiannually in arrears in equal installments on May 21 and November 21 of each year (each such date, a “Payment Date”), commencing on May 21, 2018 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 will maintain 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 this offering memorandum).

### Status of the Notes

The notes will be direct, general, unsecured, unsubordinated and unconditional obligations of the Government and will 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 are being offered and sold within the United States to qualified institutional buyers in reliance on Rule 144A. Notes also may be offered and sold outside the United States in reliance on Regulation S. The notes

will be issued only in fully registered form, without interest coupons. The notes will be issued in denominations of U.S.\$200,000 and integral multiples of U.S.\$1,000 in excess thereof.

#### *Global Bonds*

The notes will initially be 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 will be 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 will be represented by a Global Note, the Regulation S Global Note.

Upon issuance, each of the Global Notes will be 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 will be 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 will credit 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 will be 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 will initially be credited within DTC to Euroclear and Clearstream Banking on behalf of the owners of such interests. Investors purchasing 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 intends to settle by delivering interests in the Regulation S Global Note solely through Euroclear or Clearstream Banking. Each of Euroclear and Clearstream Banking will appoint 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 “Transfer Restrictions.”



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 will be 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**

Prior to August 21, 2028 (three months prior to the maturity date of the notes), the notes will be 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.

At any time on or after August 21, 2028 (three months prior to the maturity date of the notes), the notes will be redeemable at any time at the option of the Government, in whole or in part, at a redemption price equal to 100% of the principal amount of the notes to be redeemed.

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 Deutsche Bank Securities Inc., RBC Capital Markets, LLC or one of the Reference Treasury Dealers appointed by the Government.

“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 Fiscal Agent 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 which is, or after notice or passage of time or both would be, an 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 the date hereof 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 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 any payments in respect of the notes become subject to withholding or deduction for Taxes imposed by the Commonwealth of The Bahamas or any political subdivision or taxing authority thereof or therein, 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 or the enforcement of rights, 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 withholding or deduction, (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 Internal Revenue Service Forms W-8BEN, W-8BEN-E, 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 Fiscal Agent or 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 Amounts which may be payable under the undertakings referred to in this section “— Additional Amounts.”

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, issue or documentary taxes or any other excise or property taxes, charges or similar levies which arise in the Commonwealth of The Bahamas or any political subdivision thereof or taxing authority thereof or therein in respect of the creation, issue, execution, delivery, registration or making of payments in respect to 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, issue 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) the Government fails to pay any principal on the notes when due; or (b) the Government fails 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 fails 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 fails 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) is accelerated by reason of any event of default (however described);
- (v) the Government fails 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 is levied, after the date hereof, 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 remains 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 declares 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 New York County, State of 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 more than 50% 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 more than 50% 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.

For any matter or amendment for which the consent of the holders of the notes is required, the Government may solicit the consent of the holders of the notes to such matter or modification not less than 10 and no more than 30 days before the expiration date for the receipt of such consents as specified by the Government. Before soliciting any consent or vote of any holder of the notes for any change to a reserved matter, the Government will provide the following information to the Fiscal Agent for distribution to the holders of notes affected by the proposed modification:

- a description of the Commonwealth of The Bahamas' economic and financial circumstances that are in the Government's opinion relevant to the request for the proposed modification, a description of the Commonwealth of The Bahamas' existing debt;

- if the Government shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, (x) a description of any such arrangement or agreement and (y) where permitted under the information disclosure policies of the multilateral or other creditors, as applicable, a copy of the arrangement or agreement;
- a description of the Government's proposed treatment of external debt instruments that are not affected by the proposed modification and its intentions with respect to any other major creditor groups; and
- if the Government is then seeking any reserved matter modification affecting any other series of debt securities, a description of that proposed modification.

### **Notices**

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

Notwithstanding anything herein to the contrary, any notice to a holder of an interest in a global note will be deemed sufficiently given if given to the depository for such note (or its designee), pursuant to the applicable procedures of such depository.

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 and The Bahamas, 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.

### **Listing**

Application will be made to list the notes on the official list of the Luxembourg Stock Exchange and to trade on the Euro MTF Market.

### **Governing Law and Submission to Jurisdiction**

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

The Government will 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 New York County, State of 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 New York County, State of 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 of the Crown Proceedings Act 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 or his attorney, together with the interests, if any, lawfully due thereon; provided that the court by which any such order as aforesaid is made or any court to which an appeal against the order lies may direct that, pending an appeal or otherwise, payment of the whole of any amount so payable, or any part thereof, shall be suspended, and if the certificate has not been issued may order such direction to be inserted therein. Subject to this, 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..

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 agrees 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 will constitute a separate and independent obligation from the other obligations under the notes, will give rise to a separate and independent cause of action, will apply 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 will be 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 represents 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 acknowledges that the notes are being 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 agrees 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 agrees 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 agrees that notes initially offered within the United States to qualified institutional buyers will be represented by one or more Restricted 144A Global Notes and that notes offered outside the United States in reliance on Regulation S will be represented by Regulation S Global Notes;
- (vi) it understands that the Restricted 144A Global Notes will 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 acknowledges that the Government and the initial purchasers and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees 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 is acquiring any notes as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has 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 will 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 New York County, State of 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 New York County, State of 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 of the Crown Proceedings Act 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 or his attorney, together with the interests, if any, lawfully due thereon; provided that the court by which any such order as aforesaid is made or any court to which an appeal against the order lies may direct that, pending an appeal or otherwise, payment of the whole of any amount so payable, or any part thereof, shall be suspended, and if the certificate has not been issued may order such direction to be inserted therein. Subject to this, 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.

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 favor 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 the date hereof.

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, U.S. Holders (as defined below) 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.

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 and with respect to which 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 advisors.

#### *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, is 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, Exchange, 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, reduced by any previous payments of principal. 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 generally will not be subject to U.S. federal income tax with respect to the receipt of interest on the notes, or gain realized on 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 gain 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 an additional branch profits tax equal to 30% (or lesser rate as may be specified under an applicable income tax treaty) on its 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 generally 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, most 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 Internal Revenue Service.

## PLAN OF DISTRIBUTION

Deutsche Bank Securities Inc. and RBC Capital Markets, LLC are acting as the initial purchasers of the notes. Subject to the terms and conditions stated in the purchase agreement, the initial purchasers have agreed to purchase the principal amount of notes set forth opposite their names below:

<b>Initial Purchasers</b>	<b>Principal Amount of Notes</b>
Deutsche Bank Securities Inc. ....	U.S.\$375,000,000
RBC Capital Markets, LLC .....	U.S.\$375,000,000
<b>Total</b> .....	<b>U.S.\$750,000,000</b>

The obligations of the initial purchasers under the purchase agreement are several and not joint. The initial purchasers may offer and sell the notes through certain of their affiliates. The purchase agreement provides that if an initial purchaser fails to purchase its share of the notes and that failure constitutes a default under the purchase agreement, the remaining initial purchaser is 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 fails to purchase exceeds 10% of the aggregate principal amount of the notes being offered by the Government, the remaining initial purchaser has the right to purchase all of the notes, but is not obligated to purchase any of the notes. If the nondefaulting initial purchaser does not purchase all of the notes, the purchase agreement will terminate without liability to the nondefaulting initial purchaser.

The initial offering price is set forth on the cover page of this offering memorandum. The initial purchasers may offer the notes to selected dealers at the initial offering price set forth on the cover page of this offering memorandum less a selling concession. After the notes are released for sale, the initial purchasers may change the offering price and other selling terms. The initial purchasers reserve the right to cancel any order of notes in whole or in part.

In the purchase agreement, the Government has agreed that the Government will 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 have represented, warranted and agreed that:

- the notes may 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 will offer or sell notes:
  - inside the United States only to persons whom they reasonably believes to be qualified institutional buyers in transactions pursuant to, and in accordance with, Rule 144A;
  - outside the United States in accordance with Regulation S; or
  - pursuant to another exemption from registration under the Securities Act.

The notes will constitute a new class of securities with no established trading market. Application will be 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 may 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 the effect of preventing or retarding a decline in the market price of the notes. These transactions may also cause 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 may conduct these transactions in the over-the-counter market or otherwise. If the initial purchasers commence any of these transactions, they may 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.

Deutsche Bank AG, London Branch, an affiliate of Deutsche Bank Securities Inc., entered into a US\$250 million 12-month Senior Unsecured Term Loan dated as of September 14, 2017 (the “DB Facility”) with the Government (approximately U.S.\$90 million was utilized by the Government to meet certain obligations under derivative transactions with Deutsche Bank AG, London Branch). In addition, RBC Royal Bank (Bahamas) Ltd., an affiliate of Royal Bank of Canada, LLC, entered on July 21, 2017 into a \$100 million 9-month Senior Unsecured Demand Operating Facility (the “RBC Facility”) and, together with the DB Facility, the “Facilities”) with the Government. The Government expects to use part of the proceeds from the issuance of the notes to repay the principal amount outstanding under the Facilities.

For further details regarding the repayment of the Facilities, see “Use of Proceeds.”

## **Selling Restrictions**

Neither we nor the initial purchasers are making an offer to sell, or seeking 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 this offering memorandum, 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.

### ***Canada***

The notes may be sold in Canada only to purchasers resident or located in the Provinces of Ontario, Québec, Alberta and British Columbia, purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus supplement (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts ("NI 33-105"), the underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

### ***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, no offer of notes to the public may be made 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 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 result in a requirement for 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.

This offering memorandum has been prepared on the basis that any offer of the notes in any Relevant Member State will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of the notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of notes which are the subject of the offering contemplated in this offering memorandum may only do so in circumstances in which no obligation arises for us or any of the initial purchasers to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither we nor any of the initial purchasers have authorized, nor do they authorize, the making of any offer of notes in circumstances in which an obligation arises for us or the initial purchasers to publish a prospectus for such offer.

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 (as amended, including by Directive 2010/73/EU) and includes any relevant implementing measure in the Relevant Member State.

### ***United Kingdom***

This offering memorandum is only being distributed to, and is 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 this offering memorandum 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 this offering memorandum relates is available only to relevant persons and will be engaged in only with relevant persons. The notes are not being 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 Superintendencia de Valores y Seguros de Chile (“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.

The offer of the bonds began on November 6, 2017 and is subject to General Rule No. 336 of the SVS. The bonds being offered are not registered in the Securities Registry (Registro de Valores) or in the Foreign Securities Registry (Registro de Valores Extranjeros) of the SVS and, therefore, the bonds are not subject to the supervision of the SVS. As unregistered securities, we are not required to disclose public information about the bonds in Chile. The bonds may not be publicly offered in Chile unless they are registered in the corresponding securities registry.

La oferta de los bonos empezó el 6 de Noviembre de 2017 y se acoge a la Norma de Carácter General N°336 de la Superintendencia de Valores y Seguros. Los bonos que se ofrecen no están inscritos en el Registro de Valores o en el Registro de Valores Extranjeros que lleva la Superintendencia de Valores y Seguros, por lo que tales valores no están sujetos a la fiscalización de dicha Superintendencia. Por tratarse de valores no inscritos, no existe obligación por parte del emisor de entregar en Chile información pública respecto de estos valores. Los bonos no podrán ser objeto de oferta pública en Chile mientras no sean inscritos en el Registro de Valores correspondiente.

### ***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***

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering circular 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 this offering memorandum 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. This offering memorandum may not be copied, reproduced, distributed or passed on to others without the initial purchasers’ prior written consent. This offering memorandum is 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 this offering memorandum 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.

### **Settlement**

We expect that delivery of the notes will be made against payment therefor on or about the fifth business day in the United States following the date of the pricing of the notes (this settlement cycle being referred to as “T+5”). Under Rule 15c6-1 of the U.S. Securities and Exchange Commission under the Exchange Act, trades in the secondary market generally are required to settle in two business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade notes on the date of pricing or the next succeeding business day in the United States will be required, by virtue of the fact that the notes initially will settle in “T+5,” to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the notes who wish to trade the notes on the date of pricing in the United States should consult their own advisors.



## **GENERAL INFORMATION**

The Notes have been accepted for clearance through Euroclear and Clearstream. The Common Code for the Restricted 144A Global Notes is 172523501 and the Common Code for the Regulation S Global Notes is 172197990. The International Securities Identification Number, or ISIN, for the Restricted 144A Global Notes is US056732AJ97, and the ISIN for the Regulation S Global Notes is USP06518AG23.

The legal authorizations for the issuance of the notes offered hereby are set forth in the resolutions of the House of Assembly, dated May 31, 2017 and June 20, 2017, which authorize the Minister of Finance to borrow approximately \$1,322.2 million in U.S. dollars.

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 this offering memorandum is included as a public official statement made on the authority of the Ministry of Finance of the Government, in its official capacity.

## **LEGAL MATTERS**

The validity of the notes and certain other legal matters relating to the issuance of the notes will be 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 will be 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**

Government of the Commonwealth of The Bahamas  
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*As to Bahamian law*

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**U.S.\$750,000,000**

**The Commonwealth of The Bahamas**

**6.000% Notes due 2028**



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**OFFERING MEMORANDUM**

**Deutsche Bank Securities**

**RBC Capital Markets**

November 27, 2017

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