

CENTRAL BANK OF BARBADOS 2017 ANNUAL REPORT

CELEBRATING 45 YEARS OF
CENTRAL BANKING

ABOUT THE COVER

Our economy has progressed rapidly over the last 45 years with the Central Bank of Barbados being central to many of the developments. As such, the cover images depict the movement of Barbados from an agrarian to a modern economy, where renewable energy and services are now key economic drivers and there is increasing use of technology.

The Central Bank has adjusted to this progression, by broadening its outlook, research and surveillance capacity. The background shades moving from dark to a brilliant blue speak to the forward movement of our tourism product, representing the sea, and sky. The colours are rich and vibrant, suggestive of a bright future, in which the institution will continue to be central to the country's economic growth and development.



CENTRAL BANK OF BARBADOS 2017 ANNUAL REPORT

**CELEBRATING 45 YEARS OF
CENTRAL BANKING**

TABLE OF CONTENTS

CORPORATE PROFILE	06
GOVERNOR'S MESSAGE	08
BOARD OF DIRECTORS AND SENIOR MANAGEMENT	10
CORPORATE GOVERNANCE	13
1. BOARD MATTERS	13
2. INTERNAL AUDIT	14
3. RISK MANAGEMENT	14
CENTRAL BANK OPERATIONS	15
1. ECONOMIC REVIEW	15
2. FINANCIAL STABILITY	19
3. MONEY, CREDIT AND CAPITAL MARKETS	20
4. CURRENCY MANAGEMENT	22
5. INFORMATION TECHNOLOGY	25
6. PLANT MAINTENANCE	25
7. PEOPLE AND PROGRAMMES	26
8. OUTREACH	28
9. INTERNATIONAL RELATIONS	31
PUBLICATIONS AND PAPERS PRESENTED	32
ADOPTION OF FINANCIAL STATEMENTS 2017	34
FINANCIAL STATEMENTS AND REPORTS	35

ACKNOWLEDGMENTS

Editorial Coordinator: Peter Whitehall

Administration Coordinator: Laurie Blackman

Design: G&A Communications Inc

Printing: Cot Holdings Limited

LETTER OF TRANSMITTAL



CENTRAL BANK OF BARBADOS
www.centralbank.org.bb

March 29, 2018

The Hon. Christopher Sinckler, M.P.
Minister of Finance and Economic Affairs
Ministry of Finance and Economic Affairs
Government Headquarters
Bay Street
St. Michael

Dear Minister

In accordance with Section 52(2) of the Central Bank of Barbados Act, Cap 323C, Laws of Barbados, I have the honour to submit to you in your capacity as Minister of Finance, the Bank's Annual Accounts for the year ended December 31, 2017 as certified by the External Auditors in accordance with Section 51 of the Act, together with the Report on its operations during 2017.

The original of the Auditor's Report and Certificate was forwarded to you with my letter of March 22, 2018.

Sincerely

A handwritten signature in black ink, appearing to read "C. Haynes", is written over a horizontal dotted line.

Cleviston L. Haynes
Governor

CORPORATE PROFILE

The Central Bank of Barbados (the Bank), set up by the Government in 1972 as a statutory organisation, is responsible for:

- regulating the issue, supply, availability and international exchange of money;
- promoting monetary stability;
- promoting a sound financial structure;
- fostering development of the money and capital markets; and
- fostering credit and exchange conditions conducive to the orderly and sustained economic development of Barbados.

MISSION STATEMENT

To foster an economic and financial environment conducive to sustainable growth and development.

OUR VISION

To create and maintain an institution of world-class excellence.

OUR VALUES

LEADERSHIP & INNOVATION

To be nimble, to seek out new ideas, to embrace change, to encourage critical and strategic thinking, and to value high performance.

GOVERNANCE

To follow Board-approved policies and structures that will inform, direct and monitor our activities as we work toward achieving our strategic objectives.

INTEGRITY & TRANSPARENCY

To be ethical, to practise open communication, and to be consistent in how we apply policies.

ACCOUNTABILITY

To be timely, open and accurate, and to safeguard our staff, information and other assets.

RESPECT & EMPATHY

To actively listen to each other and to value each other's opinions.

TEAM-SPIRITEDNESS

To be caring and supportive, to be enthusiastic, and to work together to achieve our organisation's objectives.

OUR STRATEGIC OBJECTIVES

1. Promote macroeconomic stability through sound economic analysis, monetary policy formulation and influence on national economic policies.
2. Promote a stable financial system and provide for the effective regulation and supervision of institutions regulated by the Bank.
3. Promote the modernization and efficiency of payments infrastructure and provide efficient currency services.
4. Enhance the efficiency of Money and Capital Markets.
5. Strengthen governance structures and policies.
6. Strengthen the Bank's risk management framework and enhance the management of organizational risks.
7. Promote the development of a caring, team-oriented institution that is creative, emphasizes analytical and critical thinking, adheres to its core values and achieves high levels of engagement and productivity.
8. Leverage the use of cutting edge technology, for improved operational efficiency and creativity and innovation, all in a secure network environment.
9. Strengthen the Bank's systems for data and information management to enable easy access by internal and external users.
10. Adopt a communications approach that supports partners' engagement and embraces new media.



GOVERNOR'S MESSAGE

MACROECONOMIC OUTLOOK

The Barbados economy continued to face major economic challenges during 2017, the result of declining international reserves and weak public finances. Moderate economic growth was registered but the need for a deepening of fiscal consolidation measures raised inflationary pressures and, together with low levels of investment, dampened the acceleration in economic activity.

The fiscal policy measures did contribute to a reduction in the fiscal deficit and this was complemented by the Bank's

tightening of its monetary policy stance through increased securities requirements on commercial banks from 10% to 20% of deposits. This shift in policy by the Bank enabled a substantial reduction in new Central Bank lending to government. Despite the fiscal gains, however, the size of fiscal imbalances, the debt overhang and the financing requirements emphasise the need for further public sector reforms to enable fiscal sustainability over the medium term.

The stock of international reserves again fell sharply, reaching just over half of the targeted benchmark of twelve weeks of import cover. This outturn largely reflects the impact of external debt service payments, low public sector external borrowing and the tightness of the foreign exchange market that prevented the transfer by commercial banks of substantial inflows of foreign exchange to the Bank.

During 2018, the Bank will continue to assist the Government in strengthening the macroeconomic framework. In this regard, increasing the international reserve buffer will be pivotal to the design of Barbados' macroeconomic strategy. Aggregate demand will need to be carefully monitored and higher levels of public and private sector capital flows will be vital to the rebuilding of Barbados' foreign exchange reserves to acceptable levels. In addition, it will be important to ensure that fiscal consolidation strategies align the deficit with available financing, stall the growth of debt and contribute to a restoration of confidence. We believe that with the assistance of all stakeholders we can address the challenges ahead.

FINANCIAL STABILITY

In March 2017, the Bank published the 2016 Financial Stability Report which indicated that the financial system continued to have the capacity to withstand a range of adverse shocks. The banking system remained stable during 2017, with banks registering high levels of capital adequacy, a moderate reduction in non-performing loans and above normal liquidity ratios. The fall in loan delinquency, together with the widening of the interest rate spread, contributed to a modest improvement in bank profitability.



CLEVISTON L. HAYNES
GOVERNOR

FINANCIAL PERFORMANCE

The Bank recorded a profit of BDS \$46.9 million during 2017 compared to \$ 27.1 million in 2016. The Bank's foreign income was again depressed by low coupons and the decline in the international reserves available for investment. However, the improved financial performance reflected the impact of the increased holdings of domestic Treasury Bills and Debentures. This performance, together with the impact of Church Village land vested in the Bank by Government, enabled the Bank to strengthen its capital position.

THE BANK IN TRANSITION

The Bank entered a transition phase during 2017 following the departure of its sixth Governor Dr. DeLisle Worrell. The Bank celebrated its 45th anniversary, a significant milestone for an institution that has been blessed by being able to attract and retain talented committed individuals, several of whom have served for over 30 years. They have helped to nurture the Bank to maturity, constitute our institutional memory and are the pillars of our 45 years of strong corporate performance. Their presence has strengthened the resilience of the organisation and facilitated a relatively smooth transition. Increasingly, some of these stalwarts are retiring and we wish to thank them for their service, secure in the knowledge that the commitment, dedication and fervor within the Bank among the emerging generation of central bankers will enable us to continue to pursue our goal of excellence.

Our Vision is to create an institution of excellence of which Barbadians can be proud. During the coming year, the Bank will maintain its focus on its core responsibilities related to macroeconomic and financial stability.



Bank employees (from left) Raj Edwards, Jamila Beckles, Merle Taitt and Francine Wickham representing various generations of staff during the Opening Ceremony for the 45th Anniversary Celebrations.

In addition, it will seek to upgrade its systems for governance and risk management and promote improved efficiency in the delivery of its services through enhanced use of technology and improved customer service delivery. We recognise that the strength of the institution resides in highly trained and committed staff whose accumulated knowledge and intellectual capacity drive our performance.

By staying true to our core values of respect for the individual, integrity and accountability, we will seek to attain our objectives by improving our systems for internal communication and enhancing our leadership at all levels. Through these initiatives, we will strengthen our capacity to respond nimbly to the challenges that lie ahead and continue the excellence, stability, innovation, and leadership for which we are known and respected.

BOARD OF DIRECTORS

(SEATED FROM LEFT)

MR. BJORN BJERKHAMN - SCM, MBAPE, B.Sc. ENG. (HONS)
MS. ONIKA STEWART - LL.B, L.E.C.
MR. CLEVISTON L. HAYNES - M.A. (ECON), Governor
MR. CECIL MCCARTHY - LL.B, L.E.C., Q.C.

(STANDING FROM LEFT)

DR. JUSTIN ROBINSON - Ph.D.
DR. LOUIS WOODROFFE - M.Sc., LL.M., M.A., Ph.D.
MR. PETER CARTER - M.A., ECCA.
MR. ELSON A. GASKIN - LL.B, L.E.C., M.B.A., MICBS, JP
Secretary to The Board



SENIOR MANAGEMENT



MR. CLEVISTON L. HAYNES
M.A. (Econ.)
Governor



MR. MICHAEL D. CARRINGTON
M.B.A., FC.C.A.
Deputy Governor (Ag.)



MRS. MICHELLE DOYLE-LOWE
M.PHIL, CFA
Deputy Governor (Ag.)



MS. PAMELA ARTHUR
B.A., M.Sc.
Assistant Director,
Human Resources



MRS. MARLENE E. BAYNE
M.B.A.
Director, Bank Supervision



MR. ANTON BELGRAVE
M.A. (Econ.), FRM.
Director, Research and
Economic Analysis (Ag.)



MR. CHARLES BRIGGS
M.B.A., C.ENG.
Director, Facilities
Management



MR. IAN COLLYMORE
M.Sc., J.P.
Director, Foreign Exchange
and Export Credits (Ag.)



MR. ELSON GASKIN
L.L.B., L.E.C, M.B.A., MICBS, J.P.
Bank Secretary



MS. JANICE D. MARSHALL
M.B.A.
Director, Management
Information Systems



MR. PHILMORE THORNE
M.B.A., FC.C.A., FCA.
Financial Controller (Ag.)



MR. STEVE A. VAUGHN
FC.C.A., C.I.A.
Director, Internal Audit



MRS. JULIA WEEKES
B.Sc., CFA.
Director, Banking,
Currency and Investments



MR. PETER H. WHITEHALL
B.Sc., M.PA
Adviser to Governor



MS. CELESTE J. WOOD
M.Sc., M.B.A.
Adviser to Governor

OTHER SENIOR OFFICERS

MS. WILMA BELGRAVE

B.Sc., A.C.I.S.

Deputy Director, Foreign Exchange and Export Credits (Ag.)

MS. DEBBIE BRIGGS

B.Sc., A.C.C.A.

Deputy Director, Banking, Currency and Investments

MS. NOVALINE BREWSTER

M.Sc., J.P.

Public Affairs Officer, Governor's Office

MS. SADIE DIXON

LL.B., LL.M., L.E.C.

Legal Counsel

MR. DARRIN DOWNES

M.A. (Econ.), LL.B., L.E.C.

Deputy Director, Research and Economic Analysis (Ag.)

MS. OCTAVIA O. GIBSON

M.Sc., PMP, J.P.

Deputy Director, Banking Currency, & Investments

MRS. CHERYL A. GREENIDGE

M.B.A.

Deputy Director, Bank Supervision

MRS. JOSEPHINE HAYWOOD

B.Sc., C.G.A.

Assistant Director, Management Information Systems

MS. TAMARA HURLEY

M.B.A.

Risk Assessment Analyst, Bank Supervision

MR. HARTLEY O. JORDAN

M.B.A.

Deputy Director, Facilities Management

MRS. SHERYL A. PETER-KIRTON

M.Sc.

Deputy Director, Research and Economic Analysis

MR. PETER deC. ROCHESTER

M.B.A.

Deputy Director, Management Information Systems

MS. ANGELA SKEETE

M.A.

Assistant Director, Research and Economic Analysis

CORPORATE GOVERNANCE

1. BOARD MATTERS

The Board of Directors (Board) of the Bank has been entrusted, pursuant to Section 10 of the Central Bank of Barbados Act Cap. 323C of the Laws of Barbados, with the overall responsibility for the policy and general administration of the Bank. The Board is empowered by the Act to make by-laws regulating the conduct of the Bank's business and it may also make regulations and issue orders for the purpose of giving effect to the provisions of the Act.

The Board has delegated some of this responsibility to the Governor and senior officers of the Bank who are tasked with the daily responsibility of executing the policies established by the Board.

Composition of the Board

The Board consists of the Governor as Chairman, the Director of Finance and Economic Affairs and five (5) other Directors who are persons of recognised experience in the areas of law, economics, finance and business.

Dr. DeLisle Worrell's tenure as Governor ceased with effect from February 23, 2017. Mr. Cleviston Haynes was appointed to act as Governor with effect from February 24, 2017 and he was substantively confirmed as the Bank's seventh Governor with effect from January 1, 2018.

At present the other members of the Board are Mr. Cecil McCarthy Q.C., Dr. Justin Robinson, Ms. Onika Stewart, Mr. Bjorn Bjerckhamn, Mr. Peter Carter and Dr. Louis Woodroffe.

The Bank Secretary, Mr. Elson Gaskin, is the officer chiefly responsible for Board administration. The two Deputy Governors of the Bank also attend all Board meetings but are only entitled to vote if, in the absence or disability of the Governor, one of them is chairing a Board meeting. At present there are two acting Deputy Governors in the persons of Mr. Michael Carrington who was appointed to act effective February 24, 2017 and Mrs. Michelle Doyle-Lowe who was appointed to act effective June 2, 2017.

Sub-committees of the Board

There is one sub-committee of the Board, namely the Audit Committee. This committee addresses matters pertaining to the internal audit functions of the Bank and reviews the draft audited financial statements of the Bank, in conjunction with the external auditors, prior to the said statements being approved by the Board. Apart from the Audit Committee, a member of the Board in the person of Mr. Cecil McCarthy Q.C. also sits on the Committee of Management of the Staff Pension Fund.

During the year under review, the Audit Committee met four (4) times. The Chairman of the Audit Committee is Mr. Peter Carter. Dr. Justin Robinson and Miss Onika Stewart are the two other members of the Committee.

Meetings of the Board

The Board is statutorily mandated to meet as often as the business of the Bank requires but not less frequently than ten (10) times in each year: not more than two (2) months must elapse between one meeting of the Board and the next meeting.

Four Directors, of whom one must be the Governor, or in case of his absence or disability, a Deputy Governor, form a quorum at any meeting, and decisions are adopted by a simple majority of the votes of the members present. In the event of an equality of votes the Chairman may exercise a second or casting vote.

The Bank's by-laws provide for regular meetings for which no notice is necessary and for special meetings, to be convened at the written request of the Governor or any two Directors. In the latter case, however, notice is required.

The Board met in eleven (11) regular sessions in 2017 in addition to one (1) special meeting. Among the matters considered in the year under review were economic developments, the Bank's strategic plan, regular periodic reporting on operational matters, the administrative budget and human resource issues.

2. INTERNAL AUDIT

Reports for assurance audits of activities in the Banking, Currency and Investments, Accounts, Bank Supervision, and Management Information Systems departments, and Security section were issued during the year to the Audit Committee of the Board, Governor (Ag.), Deputy Governors (Ag.) and related management. Audits of activities in the Research and Economic Analysis, Foreign Exchange and Export Credit, Facilities Management, Human Resources, Accounts, and Banking, Currency and Investments departments were in progress at the end of 2017.

3. RISK MANAGEMENT

Information Security

The Bank focused on enhanced cyber-securing of the Information and Communication Technologies (ICT) environment in the aftermath of the Central Bank of Bangladesh attack and the subsequent attack on other financial institutions. In response, Society for Worldwide Interbank Financial Telecommunications (SWIFT) instituted a Customer Security Programme (CSP) which required all institutions connected to it to attest compliance to the SWIFT Customer Security Controls Framework. In addition, the Bank engaged in a review and upgrade of its Endpoint Protection and Encryption Infrastructure.

2018 Priorities

- Ensuring compliance with the SWIFT Customer Security Programme, including the mandatory upgrade of hardware and software.

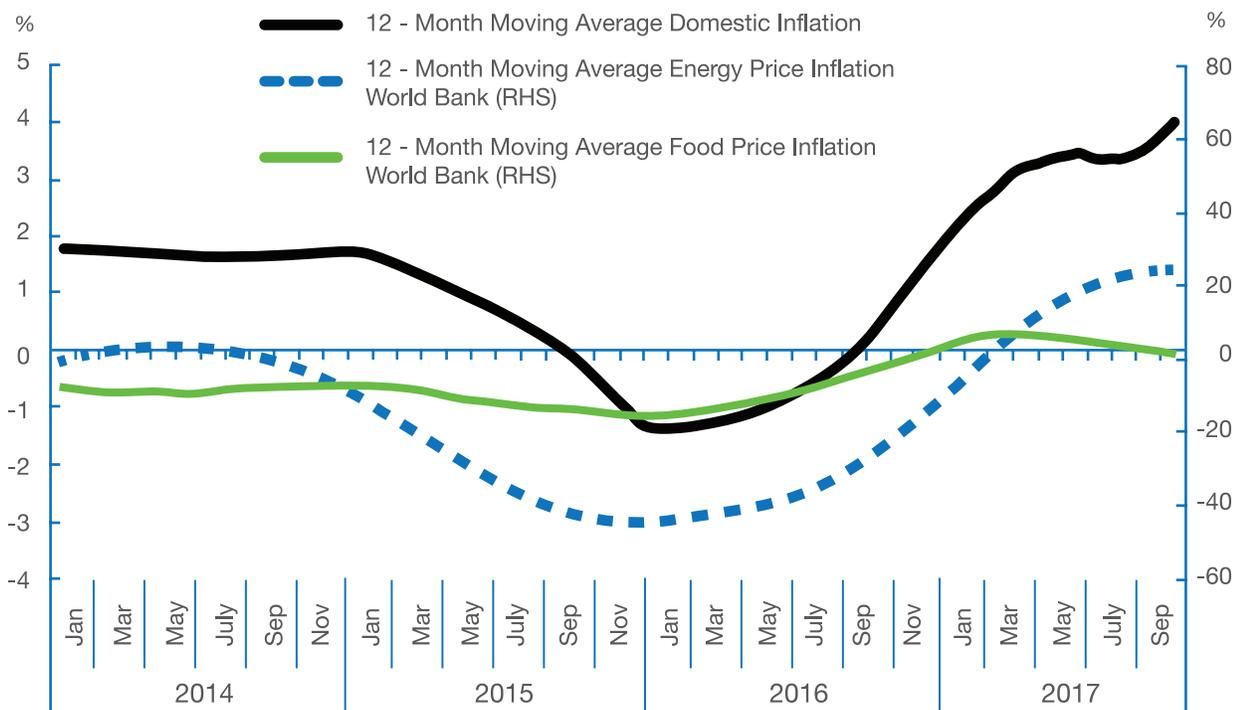
CENTRAL BANK OPERATIONS

1. ECONOMIC REVIEW

Overview

During 2017, the Barbados economy continued to face significant macroeconomic challenges associated with declining international reserves, weak public finances and the need for the implementation of measures that create a platform for sustainable growth over the medium-term.

Retail Price Inflation



Real Sector

For the third consecutive year, there was a modest improvement in economic activity, but after an encouraging start, preliminary data suggest that the growth rate is estimated to have moderated to one percent, reflecting the combined effects of a slowdown in the tourism sector in the second half of the year, the delayed implementation of foreign-funded investment projects and the impact of tighter fiscal policy. Tourism activity expanded by 1.2 percent over the course of the year despite strong performances in long-stay and cruise passenger arrivals of 4.4 percent and 14.7 percent, respectively.

The modest growth in tourism was largely attributable to a 5.6% decline in the average length of stay of visitors. Arrivals from the United States (U.S.) and Canada grew by 11.6 percent and 7.8 percent, respectively, the result of increased seating capacity and improved economic growth in key source markets. However, arrivals from the United Kingdom declined by 0.5 percent against a backdrop of Brexit uncertainty. The significant growth in cruise passenger arrivals during the year coincided with an upsurge in cruise ship calls at the Bridgetown Port.

Improvement in overall traded sector activity is also estimated to have benefited from higher production in the sugar and non-sugar agricultural sub-sectors. However, based on the latest index of industrial production, manufacturing output was on par with that of the preceding year.

Non-traded activity slowed in the second half of the year to 0.8 percent. This reflects primarily a slowdown in the Business and Other Services and Wholesale and Retail industries. The Construction industry, though slowing down in the latter half of the year, registered growth of 6.3 percent.

Available data up to the end of the third quarter indicates that the average unemployment rate rose marginally to 10.2 percent, a little higher than the comparable average rate of 10.0 percent at the end of September last year. In addition, the pass-through effects of higher international oil prices and increased indirect taxes, contributed to heightened inflationary pressures. Thus, the twelve-month moving average rate of retail price inflation rose to 4.2 percent, mainly as a result of price increases for Food, Beverages and Tobacco, Housing and Utilities.

Long-Stay Arrivals by Source Market ('000)

	January -December			
	2014	2015	2016	2017(p)
U.S.A	118.5	148.1	168.9	188.5
Canada	65.8	74.5	78.9	85.1
U.K	186.8	214.2	218.6	217.6
Germany	12.0	12.3	11.5	11.2
Other Europe	32.7	28.5	28.3	29.0
Trinidad & Tobago	27.9	29.7	34.0	35.8
CARICOM	50.8	58.3	65.7	67.0
Other Countries	25.0	26.3	25.6	27.2
TOTAL LONG-STAY	519.6	591.9	631.5	661.4

P= Provisional

External Sector

The underlying macroeconomic stresses contributed to the weakening of the external finances, as reflected in the \$274 million loss of reserves. This second consecutive year of a major reduction in the reserves was also significantly influenced by the impact of the delayed execution of a planned divestment transaction.

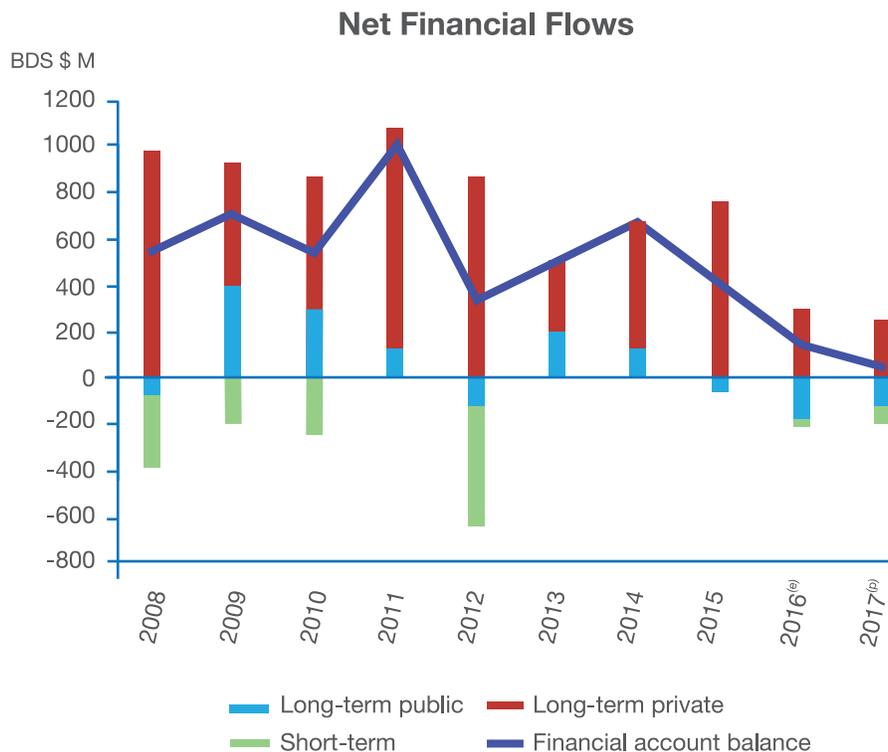
Driven by the increases in international energy prices, domestic fuel prices rose on average by 24.0 percent during the year, while volume imports of fuel increased by 3.0 percent. For the first half of the year, the imports of consumer goods grew by 2.4 percent, but an estimated 7.7 percent decline in the second half of the year ultimately led to an overall contraction in consumer goods by year-end. The external current account deficit fell to an estimated \$407.4 million, approximately \$4 million lower than last year's deficit, as a 2.4 percent increase in tourism receipts and rising rum exports, outweighed the increase in the value of fuel imports.

The financial account recorded an estimated surplus of \$84.4 million at the end of 2017, slightly lower than the surplus for 2016 and substantially lower than the average for 2011-2015. The weakening in the financial account balance resulted from a combination of increased external debt service obligations and low capital inflows for both the private and public sectors.

Financial Sector

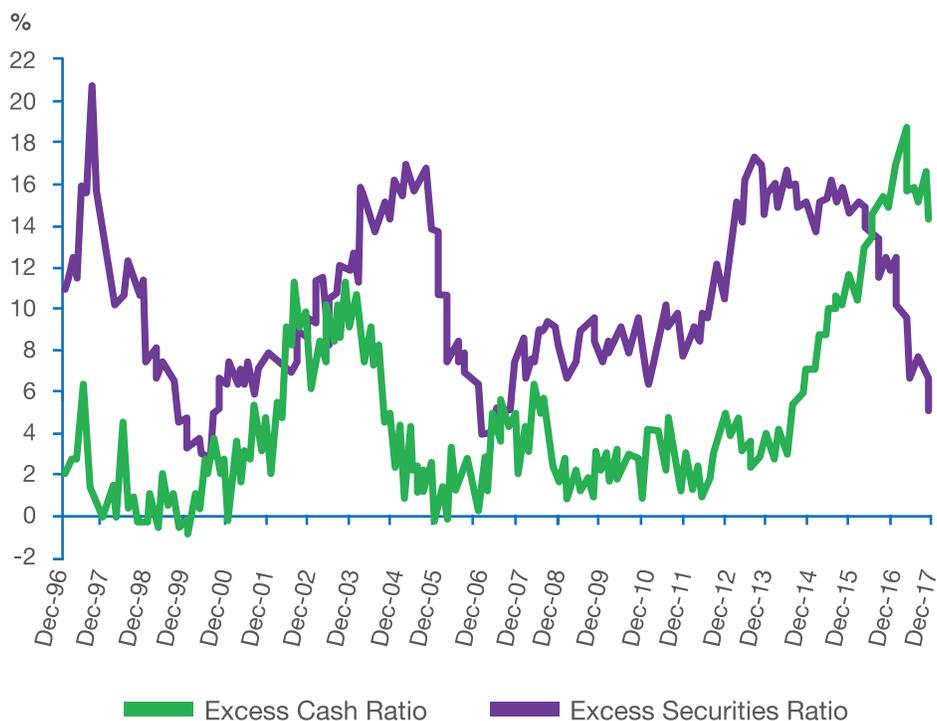
The banking system remained stable during 2017 as evidenced by the trends in capital adequacy, non-performing loans and liquidity. The sector continued to exhibit high excess liquidity and was affected by the increased share of low yielding liquid assets in banks' portfolios, with the excess cash reserve ratio registering 14.1 percent, at year-end.

The commercial bank excess securities ratio declined from 7.4 percent to 5.3 percent at the end of December, due to the Central Bank's tightening of its monetary policy stance, which required commercial banks to raise their holdings of Government securities from 10% to 20% of deposits in stages.



Source: Central Bank of Barbados

Excess Reserve Ratios of Commercial Banks



Source: Central Bank of Barbados

However, the cash reserve requirements for commercial banks remain unchanged at 5 percent and 2 percent, respectively, for domestic and foreign deposit liabilities. The reserve requirements for deposit-taking trust and finance companies and merchant banks also remain unchanged, while the savings deposit rate continued to be market determined. The Bank's discount rate remained at 7 percent.

Public Sector

The fiscal deficit over the April to December period was estimated at \$399.5 million, 33.0% lower than the comparable deficit for the same period in fiscal year 2016/17. This improvement was due to Government's increased revenue-take of \$207 million, which led to the reversal in the small primary deficit the previous year.

Supported by the introduction of new budgetary measures in May 2017, tax revenues rose by \$199.4 million over the first nine months of the fiscal year. Corporation taxes grew by \$34.7 million, largely the result of the improved profitability of some financial institutions and the effects from the reduction of the carry forward period for group tax losses. Increases were also recorded in personal income taxes and the financial institutions asset tax, while property taxes were largely unchanged.

Increased revenues from the National Social Responsibility Levy (\$84.9 million), VAT (\$30.0 million) and excises (\$67.3 million) were enough to offset the estimated \$9.1 million decline in import duties.

The foreign exchange fee generated approximately \$30.4 million in receipts since its implementation in July, 2017. Proceeds from this fee resulted in non-tax revenues increasing by \$14.4 million, marking a recovery from the \$18.4 percent decline in 2016, owing to a fall in investment income.

Current expenditures increased by \$55.9 million for the first nine months of the fiscal year. Savings of \$6.7 million in goods and services and \$4.5 million in wages and salaries payments were insufficient to counteract increases in grants to public institutions (\$38.9 million), grants to individuals (\$32.1 million), and domestic interest expenses (\$17.7 million). Capital expenditure continued to decline, falling by \$45.9 million over the review period, as a result of delays in some of the major capital projects that were expected to commence during the fiscal year.

During the current fiscal year, the deficit was mainly financed by commercial banks (\$298.2 million), reversing last year's decline of \$240.9 million. The increase in the purchase of securities by commercial banks was reflective of the rise in the securities reserve requirement. Central Bank funding fell to \$96.8 million during the current year compared to \$714.5 million for the corresponding period of fiscal year 2016/17. Access to foreign funding proved inadequate to offset foreign amortisation payments totaling \$200.9 million. At the end of December, the gross central government debt, including borrowings from the Central Bank and the National Insurance Scheme (NIS), fell slightly to approximately 145.9 percent of GDP.

2. FINANCIAL STABILITY

Licensed Financial Institutions

Type of Institution	2010	2011	2012	2013	2014	2015	2016	2017
Domestic								
Commercial Banks	7	7	6	6	6	5	5	5
Bank Holding Company	1	1	1	1	1	1	1	1
Part III Companies	13	13	12	12	12	13	13	14
Total Domestic	21	21	19	19	19	19	19	20
International	45	45	46	40	36	28	25	25
Total Licensed Institutions	66	66	65	59	55	47	44	45

At year-end, the Bank was responsible for the supervision of five commercial banks and one bank holding company, together with fourteen domestic near-banks and twenty-five international banks. In 2017, one new Part III company was licensed and one license application was pending under the International Financial Services Act.

The financial system continued to demonstrate resilience with improved performance across a majority of its key sectors. Commercial banks remained profitable against a backdrop of lower interest rate expenses and continued improvements in

credit quality. Despite a large decline for the first quarter of 2017, holdings of Government securities recovered to be on par with 2016 levels given the increases in the banks' securities reserve requirement. Excess liquidity continued to be a dominating feature of the banking sector, while bank lending growth was modest. In contrast, strong credit growth occurred in the credit union sector, driven primarily by mortgage finance, while overall credit quality improved moderately. Increased profitability was also observed by the life insurance industry for 2016 due to policy changes related to the calculation of policy holders' benefits and increased investment income.

Financial Stability Report

Oversight of the financial system is shared between the Bank, the Financial Services Commission (FSC) and the Barbados Deposit Insurance Corporation (BDIC) in the form of a Financial Oversight Management Committee (FOMC). The FOMC is responsible for not only assessing the financial system, but is also tasked with policy formulation geared towards increasing its resilience. A product of this effort is the annual Financial Stability Report (FSR) prepared by the Bank's Financial Stability Unit (FSU), in association with the (FSC), which evaluates the current trends of the financial system and assesses whether there are threats to its stability. In addition, stress test analysis is conducted to assess the resilience of the financial system to imposed macroeconomic and other negative exogenous shocks.

In March 2017, the Bank published the 2016 Financial Stability Report, which revealed that the financial system was generally stable and capable of surviving a range of adverse effects. The 2016 FSR also contained two research notes. The first on household debt, concluded that, while household debt has grown significantly over the past 25 years, this by itself, and at its current level, did not pose significant risk to the country's financial stability. The second, in exploring de-risking, noted that the phenomenon represents a significant threat to the International Business and Financial Services (IBFS) sector, more so than to correspondent banking services, the impact on which has been limited in the context of Barbados.

Banking Regulation Framework

The regulation and supervision of institutions licensed under the Financial Institutions Act (FIA) and the International Financial Services Act (IFSA) remain a critical element of the Bank's mandate of maintaining and promoting financial stability. The Bank continues to enhance its regulatory framework in line with international standards and best practices through various initiatives inclusive of suggested updates to legislation and guidelines. During the year, the Bank maintained close working relationships with other domestic regulators and stakeholders, to collaborating to address various national issues, including matters related to the OECD's Inclusive Framework on Base Erosion and Profit Shifting (BEPS) and Financial Action Task Force initiatives. The Bank also continued to participate in

regulatory colleges and engaged in regular conference calls with both regional and international regulators.

Policy Development

The Bank remains active in regional and international fora (such as the Caribbean Group of Banking Supervisors, Caribbean Financial Action Task Force, the Association of Supervisors of Banks of the Americas and the Group of International Finance Centre Supervisors), where issues pertinent to global standards and international financial matters are discussed.

The Bank was represented on regional regulatory working groups to discuss matters such as Basel II/III, loan classification and provisioning standards and financial stability. Additionally, the Bank continued to participate in the Joint Policy Working Group established by the Ministry of Industry, International Business, Commerce and Small Business Development to examine initiatives to strengthen the competitiveness of the International Business and Financial Services sector. The Bank is also represented on several Technical Working Groups under the umbrella of the CARICOM Secretariat: Credit Reporting, Deposit Insurance and CARICOM Correspondent Banking/De-risking Action Plan.

2018 Priorities

- Further enhancement of the regulatory and supervisory framework for licensees.
- Continuation of the work on Basel II/III implementation.
- Continuation of dialogue with the domestic, regional and international banking sectors and regulators towards strengthening home-host relationships and consolidated supervision.
- Supporting both domestic and international licensees during the transition to International Financial Reporting Standard (IFRS) 9 – Financial Instruments.

3. MONEY, CREDIT AND CAPITAL MARKETS

Liquidity Management

The high level of excess liquidity in the banking system influenced the Bank's operations during 2017. Yet again, there were no borrowings by the commercial banks from the Bank's discount window. However, one bank with low levels of excess

cash discounted \$140.0 million in Treasury Bills to the Bank which sold \$145.2 million in Treasury Bills to the banking system.

The Bank remained active in the primary Treasury Bill market, mainly to roll over existing holdings of Treasury Bills, particularly during the last three quarters of the year. At year-end, the Bank's holdings of Treasury Bills stood at \$1.3 billion, partly due to the reinvestment of maturing medium-term securities holdings into Treasury Bills. The Bank's holdings of longer dated securities declined by \$38.7 million.

Trading in Foreign Currencies

Net purchases of foreign exchange from the banking system declined from \$148 million to \$107.1 million as tightness in the foreign exchange market resulted in increased sales of foreign exchange to banks, principally to cover oil payments. During the year, \$83.3 million in foreign notes were purchased, compared to \$91.6 million in 2016. There were also twelve (12) repatriations totaling BDS \$108.36 million, compared to eight (8) repatriations totaling BDS \$80 million the previous year.

Government Bond Market

The Bank manages the issues of Government Savings Bonds and Barbados Government Treasury Notes and Debentures on behalf of Government as a means of financing the deficit and managing domestic liquidity. Three issues of Treasury Notes and one issue of Debentures with a nominal value of \$300.0 million were offered to the public with maturities ranging from six (6) years to thirteen (13) years at a weighted average coupon of 6.52 percent per annum. During 2017, a total of \$535.0 million in securities matured, and \$364.3 million of securities, including securities issued before 2017, were sold. During 2017, three (3) Savings Bond issues totalling \$20.0 million were offered to the public. One issue of nominal value \$10.0 million matured during the year. As at December 31, 2017, certificates presented for redemptions for that issue amounted to \$8.1 million. Certificates presented, from issues which had matured prior to 2017 were \$4.3 million, resulting in an outstanding balance for Savings Bonds of \$154.6 million at year-end.

Enhanced Credit Guarantee Fund

The Enhanced Access to Credit for Productivity Project, funded by Inter-American Development Bank and the China Co-Financing Fund, was launched in January 2016 and four financial institutions have sought coverage for loans to twenty-three businesses. During 2017, twelve guarantees were approved valued at \$5.7 million while the Fund received foreign currency capital contributions of \$2.6 million.

Export Credits & Guarantees

Collateral support provided to small and medium-sized enterprises under the credit guarantee scheme was valued at \$0.5 million during the year under review. At the end of 2017, there were fifty-five (55) guarantees outstanding. The maximum liability of \$4.9 million at December 31, 2017 was marginally higher than the previous year. No tourism loan guarantees were provided and no change was recorded in the aggregate lines of credit of \$5.8 million at year-end.

There was no outstanding liability for insurance business under the Export Credit Insurance facility but Export Finance Guarantees totalling \$0.5 million were issued in 2017 in respect of lines of credit valued at \$0.5 million. This support was provided to a local exporter for post-shipment finance purposes.

Trade Receivables Liquidity Facility

There was again limited use of the Trade Receivables Liquidity Facility as two (2) small businesses obtained financing compared to three (3) in 2016. The value of the guarantees issued in 2017 amounted to \$0.2 million. At the end of the year, there was one (1) guarantee outstanding.

Industrial Credit Fund

The reduced demand for credit and the associated high liquidity in the banking sector continued to impact negatively on the performance of the Industrial Credit Fund (ICF). No loan applications were received by the ICF and no disbursements were made. The balance of loans approved but undisbursed stood at \$11.6 million at year-end.

The income of the fund declined reflecting lower deposit rates in the market, the capital reduction of \$10.5 million and the reduced loan portfolio. The ICF income was estimated at \$1.4 million compared to \$1.6 million for the previous year.

Housing Credit Fund

As in 2016, the Housing Credit Fund (HCF) made no loan approvals and there were no disbursements during the year. The net income of \$1.3 million represents a thirty-one percent decline over the previous year, the result of the low investment yields prevailing in the market.

4. CURRENCY MANAGEMENT

Maintaining a Steady Supply of Currency in Circulation

During 2017, the value of notes and coins issued¹ totaled \$750 million, \$20 million higher than that recorded in 2016. Bank notes issued continued to increase, growing by \$17.8 million, representing 92 per cent of the total value of currency. Coins in circulation increased by \$1.8 million and accounted

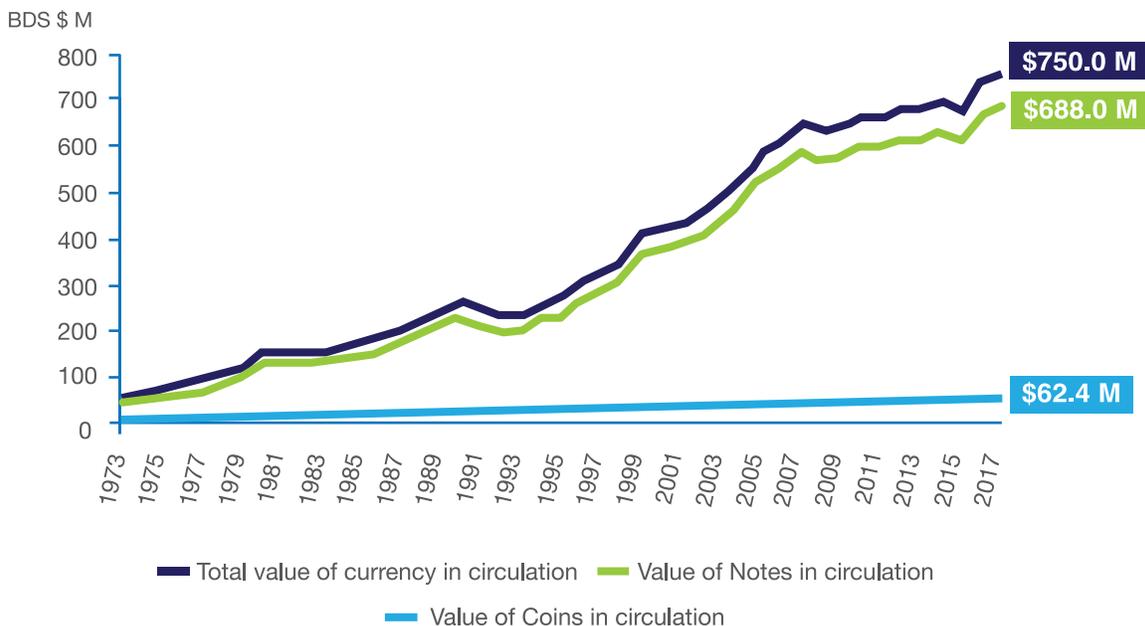
for 8 percent of total currency in circulation. Cash continues to be an important means of payment. This is illustrated by the currency in circulation as a proportion to GDP, which rose slightly to 8.1 percent in 2017 from 8.0 percent in 2016.

Issues

Currency issued to the public in 2017 remained on par with the \$1,083 million circulated to the public in 2016. Approximately 99 percent of the currency issued was notes. The volume of all denominations issued declined except for the \$100 note, which increased by 4 percent. Circulation of the \$2 and \$5 notes fell by 16 percent and 17 percent, respectively.

Coins issued to the public were reduced by 4.4 million pieces, after falling by 5.2 million in 2016. Demand for the ten cent piece continued to climb, increasing by 0.5 million pieces after rising by 0.1 million pieces one year earlier. Demand for the other denominations waned, notably the five cent coin dropping by 2.3 million pieces when compared to 2016. Distribution of the twenty five cent and dollar coin fell by 1.4 million and 1.2 million respectively, when compared to last year.

Value of Currency in Circulation



Source: Central Bank of Barbados

¹ Currency in circulation reflects currency issued to the public and currency redeemed. The amount of currency issued depends on the demands of the public. Currency deposited is a function of the commercial banks' reserve requirements, insurance limits and forecast requirements for cash. The Central Bank also dictates that notes unfit for circulation be deposited and destroyed. Circulation increases when issues exceed deposits and decreases when deposits are more than that issued at any point in time.

Deposits

During 2017, currency deposited with the Central Bank rose by \$42 million, a complete reversal from the \$37 million decline seen during 2016. Notes redeemed accounted for 99% of currency deposited while coins made up the remaining 1% of total. Redemption of the two lowest denominations declined; deposits of the \$2 note fell by 13% and the \$5 note declined by 6%. Coins returned to the Central Bank during the year in review declined by 34.7 million pieces, as the redemption of the withdrawn one cent piece declined significantly by 31.7 million pieces.

Destruction of Unfit Notes

Unfit notes destroyed during 2017 amounted to \$169.5 million, a significant reduction from the \$228.6 million destroyed at the end of 2016. Notes awaiting destruction as at December 31, 2017 totalled approximately \$12 million, compared to \$22.2 million in stock at the end of 2016.

Counterfeit Detection



Sandeef Dixon guides participants in counterfeit detection during a "Know Your Money" Seminar.

There was ongoing exposure by Bank staff to courses in banknote & currency management and counterfeit detection. The Bank also enhanced its "Know Your Money" outreach to cash in transit handlers, retailers, schools, the general public and financial institutions, offering 40 seminars during the course of the year.



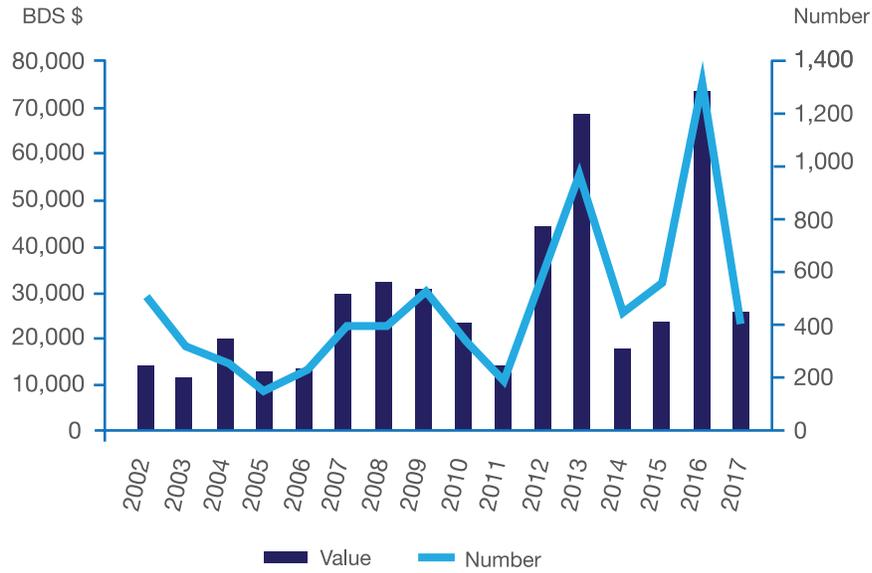
A screenshot of the new Barbadian Banknotes application for mobile platforms.

The incidence of counterfeit banknotes declined, with 398 notes being removed from circulation, 69 percent less than the previous year. The \$100 note accounted for 52 percent of total counterfeits removed from circulation. Of the \$100 counterfeit notes removed from circulation, 82 percent were counterfeits of the older series, a continuation of counterfeiters targeting the older series highest denomination. The \$20 note was the next most widely counterfeited note removed from active circulation, where 89 were removed during 2017 compared to 344 in the previous year. Some 78 percent of counterfeit \$20 notes taken out of circulation were from the new series.

Launch of Banknote App

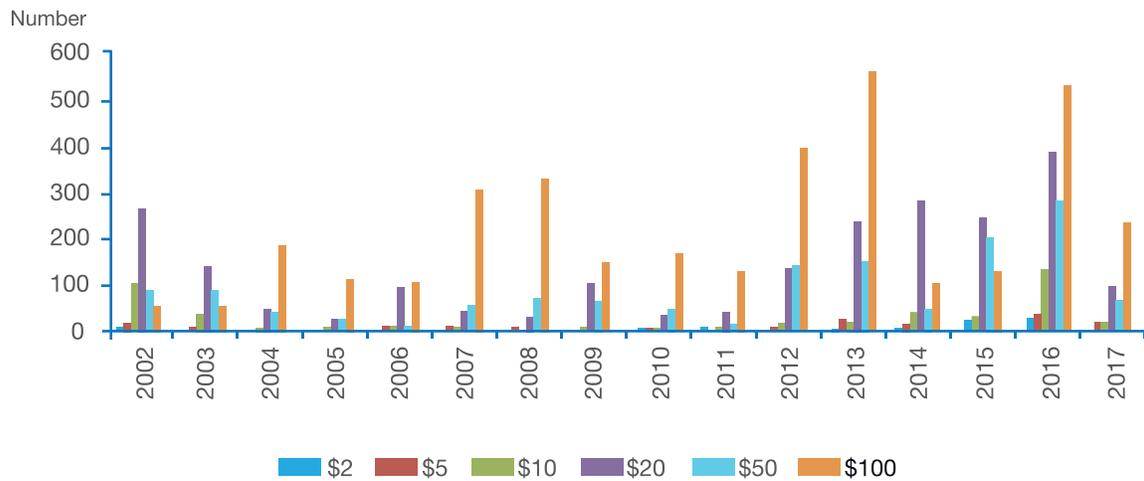
The Bank launched a new banknote application called "Barbadian Banknotes: Are Yours Real?" to help the public more easily authenticate their banknotes. The new application, created in collaboration with De La Rue, the company which produces our banknotes, is available for download, free of cost, from Google Play and iTunes. It quickly identifies the authentic features that should be on banknotes. The Bank also continues to highlight tips on counterfeit detection via its Facebook page and website.

Number of Counterfeit Notes



Source: Central Bank of Barbados

Denominations of Counterfeit Notes



Source: Central Bank of Barbados

Numismatic Programme

Two new royalty agreements were negotiated this year, increasing the total number of royalty partners to four.

During 2017, BDS \$.07 million was earned from the royalty agreements. Apart from the royalty programs, revenue from numismatics was collected from the sale of 50th Anniversary of Independence of Barbados commemorative coins and paper weights.

2018 Priorities

- Containing expenditure by prolonging the circulatory life of currency, including exploring the use of substrates for lower banknote denominations.
- Developing a viable numismatic programme utilising royalty arrangements.
- Continuing to develop customised training for our staff and publics.
- Assisting in the enforcement of laws relating to forgery & counterfeiting.
- Strengthening operational management and optimising operational efficiencies.

5. INFORMATION TECHNOLOGY

The Bank continued its quest to improve operational efficiency in provision of Management Information Services in the Bank. An intranet upgrade was completed, allowing for more user-friendly access while the electronic integration of fixed asset verification process into the accounting system resulted in increased efficiencies in maintaining the physical fixed asset ledger. Also work commenced on the rewriting of several of the existing internal business applications and the development of a new workflow application.

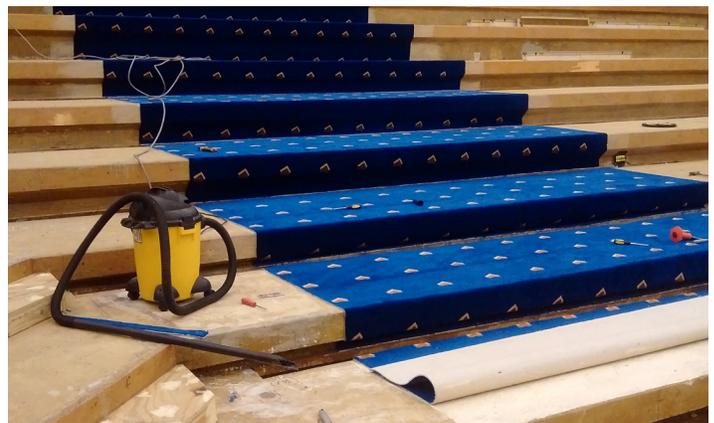
The Bank continued to upgrade the Information and Communication Technologies (ICT) infrastructure to leverage the technology to address security issues and to direct the ICT environment towards nimbleness and agility and switched to a new mobile management infrastructure. Work also began on the upgrade of the physical environment with the acquisition of new network switches and firewalls. The utilisation of multifunctional devices to provide network-scanning services

as part of the “Greening IT” initiative continued and The Bank’s effort to consolidate and virtualize Windows servers progressed during the year.

2018 Priorities

- Develop a new exchange control online system for the Foreign Exchange and Export Credits Department.
- Accommodate the move away from issuing cheques.
- Develop a new exchange rates system and improve on the current interfaces.
- Develop workflow applications as needed to improve efficiencies.

6. PLANT MAINTENANCE



Major refurbishment of the Frank Collymore Hall.

The Frank Collymore Hall (FCH) benefited from a major refurbishment and upgrade, involving new seating and new safety features such as the widening of steps to international standards, low level lighting and reflector strips. The roof was also refurbished.

The Bank maintained its programmes of upgrading the aging plant and equipment and reducing its environmental foot-print. Major plant upgrades focused on the air conditioning system which was enhanced with the addition of a variable-speed, water cooled, screw chiller.

The latter provides excellent reliability and achieves superior efficiency under true operating conditions without compromising the environment.

Work has been ongoing to upgrade the air conditioning refrigerant pipe distribution system to allow greater throughput of refrigerant at higher pressure, resulting in a more efficient A/C system. With the excavation of the inner courtyard to facilitate the laying of new pipes, the opportunity was taken to improve the landscape and lighting in the area.

The Exchange Museum was handed over to the management of the Barbados Museum and Historical Society for day to day management, enabling its opening to the public in 2018. In addition, the major upgrade to Newlands, the Governor's official residence, was completed with structural improvements to the building and enhancement of the landscaping projects begun in 2016.

The effort to reduce the Bank's environmental footprint continued, with the acquisition of our first electric vehicle, which is used daily by the Bank's logistical officers, and is recharged overnight on our compound.

7. PEOPLE AND PROGRAMMES

The Human Resources Department's strategic focus during 2017 was the development of programmes designed to inculcate and foster organisational learning. This approach is intended to equip staff with the tools and information to enable them to respond to internal and external change. In this regard, a key initiative was the Formulation and Implementation of "The Developmental Job Assignments and Transfers Policy" to facilitate and promote job transfers and assignments across the Bank to raise the level of institutional knowledge and cross-fertilisation of ideas. Other major initiatives included:

- Introduction of a Human Resources Seminar Series to aid employee learning by sharing information on topics

of interest. One such Seminar held was "Insights Into Retirement Planning – What You Should Know".

- Implementation of a "Did You Know?" Informational Series to raise employee knowledge on Bank policies, rules, regulations and the labour legislation.
- A revamped After School Programme catered to the children of the Bank's Staff, to better focus on childhood care and development.

The Bank continued to keep staff abreast of activities through a revamped intranet as well as its monthly news programme, CBB News. The series chronicled Bank-hosted and sponsored events and activities, kept staff up-to-date on regional central bank happenings, and showed "The Other Side" of staff members.

The Bank's Sports and Cultural Club planned and executed a robust programme of activities during the year, supporting the organisation's longstanding commitment to providing a healthy work/life balance for its employees. As preparations for the 2018 Intra-Regional Central Bank Games gained momentum, the Club organised team-bonding sessions as well as friendly matches in a number of sporting disciplines against local company teams.

Education and Certification



"Blue House" winners of the Sports Club Independence Quiz: (from left) Elson Gaskin, Linel Franklin, and Bradley Harris.

In 2017, Mrs. Toni Sandiford, Ms. Galeann Jordan, and Ms. Tonya Rock were awarded the Master of Science degree in Investments and Wealth Management by the University of the West Indies, while Mr. Christopher Kinch was awarded the

Masters of Science Degree in Economics by the University of Reading. Mr. Fabian Farrell was awarded the Executive Master of Business Administration degree from the University of the West Indies, Cave Hill.

Ms. Shakira Chase was awarded a Bachelor of Science degree in Management (International Business) and Ms. Janelle Holder was awarded the Bachelor of Science degree in Accounting by the University of the West Indies, Cave Hill. Mrs. Jacqueline Johnson received the Bachelor of Science in Banking and Finance and Mr. Anthony Leslie received the Bachelor of Arts degree in Security and Management, Event Planning and Records Management from the University of the West Indies, Cave Hill.

Other staff members received certification in Supervisory Management, Computer Applications, Facilities Management, Administrative Management and Event Planning.

Promotions

The following promotions occurred during the year:

Name	Department	Post Attained
Ms. Lisa Brathwaite-Phillips	Research and Economic Analysis Department	Economist
Ms. Kimarie Clement	Bank Supervision	Bank Examiner
Ms. Catrina Forde	Internal Audit	Senior Administrative Assistant
Ms. Lydia Gill	Governor's Office	Senior Security Officer
Mrs. Simone Forrester	Bank Supervision	Bank Examiner
Ms. Marcia Goddard	Internal Audit	Senior Auditor
Mr. Bradley Kellman	Bank Supervision	Bank Examiner
Ms. Shari Lorde-Richards	Bank Supervision	Senior Bank Examiner
Ms. Kim Reid	Bank Supervision	Bank Examiner
Ms. Natalie Scantlebury	Bank Supervision	Bank Examiner

Staff Movements

At the end of December 2017, the staff complement stood at 247, of these, 224 were permanent employees. Four persons joined the Bank's permanent establishment during the year and eight persons retired. The retirees included: Mr. Noel Reece, Technician II; Ms. Heather Grimes, Senior Human Resources Administrator; Mrs. Sheila Legall, Senior Accounting Officer; Mrs. Terry Gittens-Jordan, Senior Operations Officer; Ms. Jennifer Berrie-Marshall, Banking Officer; Mr. Andrew Rock, Maintenance Assistant and Ms. Merle Taitt, Senior Administrative Assistant. All of these persons had been with the Bank for over 30 years.

8. OUTREACH

Central Bank of Barbados 45th Anniversary Celebrations

In May 2017, the Bank celebrated its 45th anniversary under the theme “The Central Bank of Barbados at 45 – Celebrating Excellence, Stability, Innovation and Leadership”. The celebrations included a service of thanksgiving, an Open Day, which saw hundreds of Barbadians taking the opportunity to learn more about the Bank’s operations, a Charity Fun Run and Walk in support of the Barbados Alzheimer’s Association, and a Gala Award ceremony and dinner.

The Gala was attended by the Prime Minister, The Right Honourable Freundel Stuart, the Minister of Finance and Economic Affairs, members of the Board of Directors of the Central Bank of Barbados, former Governors Mr. Calvin Springer and Dr. Marion Williams, and the Deputy Governor of the Bank of Jamaica, Mr. Livingstone Morrison.

The celebrations culminated in December with the renaming of the Grande Salle in honour of the Bank’s first and longest serving Governor, Sir Courtney Blackman, who oversaw the construction of the Bank’s headquarters. During the naming ceremony, several persons, including then Acting Governor, Cleviston Haynes; former Governor, Winston Cox; and Minister of Finance the Honourable Christopher Sinckler, praised Sir Courtney for his foresight, tenacity and commitment to the development of an institution of excellence.



Camille Blackman, granddaughter of first Governor Sir Courtney Blackman, offering a musical tribute at the renaming ceremony.

Sir Winston Scott Memorial Lecture

The long-running Sir Winston Scott Memorial Lecture, now in its 42nd year, featured Commonwealth Secretary-General the Right Honourable Patricia Scotland Q.C. The Dominican-born Scotland, who is the first woman to hold the post, presented on the topic “Responsiveness, Resilience and Regeneration: Building on Commonwealth Advantage for Good Governance, Prosperity and Progress”, and spoke passionately about a variety of topics, among them climate change. Using the recent devastating hurricanes in the Caribbean and other natural disasters across the globe as examples, she stressed the need to take urgent action. During her 60-minute presentation, the Secretary-General also addressed the issues of gender equality, youth empowerment and entrepreneurship.



The Rt. Hon. Patricia Scotland, Commonwealth Secretary-General, delivering the Sir Winston Scott Memorial Lecture.

Distinguished Visiting Fellow Programme

The Distinguished Visiting Fellow programme continued in 2017 with a three-week visit by Dr. Patrick Honohan, former Governor of the Central Bank of Ireland. During his visit, Dr. Honohan met with and conducted sessions for a range of stakeholders and key audiences, including the Financial Services Commission, the private sector, chartered accountants, undergraduate and postgraduate students at the University of the West Indies (UWI), the media; and Central Bank staff. He also took part in a one-on-one interview with the Acting Governor, which was posted on the Bank’s website and social media pages.

That interview was shared by both local and regional media houses.

Dr. Honohan's visit concluded with him being the special guest at the 4th Caribbean Economic Forum, which was broadcast live on radio and television in more than 20 countries and territories across the region and also live-streamed on the Bank's website and social media pages.



Dr. Patrick Honohan, 2017 Distinguished Visiting Fellow, visited the offices of the Financial Services Commission.

Annual Review Seminar

The 2017 Annual Review Seminar embraced the theme "Practical Solutions to Strengthen Economic Growth and Adjustment in Small Open Economies" and covered a wide range of pertinent issues including de-risking and banking regulation, financial stability, fiscal policy and governance in the public sector and international trade and tourism.

In his keynote address, Dr. Justin Ram, Director of Economics at the Caribbean Development Bank, highlighted that the Caribbean faced a number of challenges such as low growth, high debt, low productivity and diminishing competitiveness. Dr. Ram concluded, however, that the main challenge was a failure to "implement and deliver," and he recommended that a new approach with two main functions be adopted: tracking progress and investigating and intervening to solve problems.

Participants were also availed of the opportunity to attend a technical workshop covering fiscal stability analysis in small open economies, facilitated by Professor Tarron Khemraj.

Domestic Financial Institutions Conference

The Bank, in collaboration with the Financial Services Commission (FSC) and the Barbados Bankers Association, organised the 8th Domestic Financial Institutions Conference. Governor of the Eastern Caribbean Central Bank, Timothy Antoine, in delivering his keynote address entitled "Imperatives for Financial Sector Development in the Caribbean" noted that those in the financial industry must raise their leadership capacity. Presentations centered on issues involving: cyber security, employee engagement in the financial services industry, competition and profitability in the insurance sector, interest rates and Fit and Proper criteria for owners, directors and managers of financial institutions. A synopsis of the key findings of the 2016 annual Financial Stability Report was also presented.



Domestic Financial Institutions Conference 2017: (from left) Kester Guy, Chief Executive Officer of the Financial Services Commission; Governor Clevison Haynes; and Timothy Antoine, Governor of the Eastern Caribbean Central Bank who delivered the keynote address.

Local Economic Forum

Early in the year, the Bank hosted its second Local Economic Forum with a panel that comprised then Governor, Dr. DeLisle Worrell, and representatives of the financial sector, academia, the media, and the accounting fraternity.

The event was also broadcast live on local radio and television and streamed on the Bank's Facebook page, where the online discussion was moderated by Dr. Ankie Scott-Joseph, lecturer in Economics at the University of the West Indies, Cave Hill Campus. It was also conducted before a live studio audience consisting predominantly of tertiary level students and young entrepreneurs, who were given the opportunity to pose questions to the panel.

Quarterly News Conference

Barbadians were kept informed about economic matters via the Bank's reviews of the economy, which continued to be issued in both print and video formats. In addition, the quarterly news conference was reintroduced in April 2017 and was live-streamed on the Bank's website and YouTube channel, as well as posted on its Facebook page. The reinstated news conference was also accompanied by a media lock-up immediately before the conference, which gave members of the media the opportunity to preview the press release, seek clarification on issues, and also access useful background information.

Crop Over Visual Arts Festival

The Bank continued its sponsorship of the Crop Over Visual Arts festival. A special addition was featured this year, with twelve members of the Bank staff mounting a photographic exhibition, 'VISUAL HEALING' in the Exchange Museum Gallery. With a focus on the natural and structural beauty of our island, the striking images were shot over a two-month period during a series of photography classes taught by award-winning photographer David Yearwood. The classes and exhibition were organised under the aegis of the Bank's Sports and Cultural Club.

Youth Pan Project

The Youth Pan Project (YPP) held its 16th summer workshop for school children aged 9 to 18 years. Jointly sponsored by the Bank and the National Cultural Foundation (NCF), the theme of the 2017 workshop was "Rhythm & Mass: We Coming Again!" The workshop reflects the Bank's continued commitment to the development of the youth and cultural industries of Barbados, and the preservation of steel pan as a cultural, social and economic option within the Barbadian landscape. In addition to learning and playing the instruments, the students were once

again assigned a special project that celebrated the richness of Caribbean Art / Music /Life.

Participants were inspired by a presentation from cultural practitioner and percussionist Wayne "Poonka" Willock, which showcased the drums used to deliver samba and tuk band rhythms. Individuals were encouraged to use the instruments and replicate the rhythms. Riddim Tribe Productions, led by Aisha Commissiong, also assisted the students in preparing a project on "Caribbean Carnival and Folklore", and excerpts were showcased at the Closing Ceremony as well as during the Youth Pan Extravaganza.



Wayne "Poonka" Willock (centre) surrounded by a section of campers from the Youth Pan Project.

Education

The Bank continued to support education by awarding tertiary level scholarships for economics students at the University of the West Indies and by sponsoring a secondary school student to attend the month-long residential Students Programme for Innovation in Science and Engineering (SPISE), a STEM-focused initiative. During the summer, the Bank also offered three-month internships to tertiary level students in a range of disciplines.

Bank Wins Two Awards

The second edition of the Bank's non-technical magazine, 'Economic Insight.bb,' was released in April 2017 and focused on renewable energy. A month earlier, the inaugural issue, which was published in 2016, won a Gold "ADDY" Award for Magazine Design from the American Advertising Federation in its Caribbean district.

Also, toward the end of the year, the Bank's 2016 educational television series, "It Matters Fiscally", was named Best TV/ Web Series at the Barbados Film and Media Awards.

Fish and Dragon Festival

The Bank partnered with the Chinese embassy in the staging of the 3rd Annual Fish and Dragon Festival, an event held in recognition of Barbados' diplomatic ties with the People's Republic of China – which in 2017 marked 40 years. Held in the Church Village Green, the street festival, which also celebrates the Chinese New Year, featured the Hunan Provincial Art Theatre, an acrobatics troupe as well as a number of local acts, and was the biggest in terms of attendance, to date.

Frank Collymore Literary Endowment

The Bank maintained its long tradition of promoting the arts through its Frank Collymore Literary Endowment (FCLE) fund.

This year marked the end of service to the FCLE Committee for four of its longstanding members, who will all be retiring. Outgoing Chairman Antonio "Boo" Rudder, Professor Jane Bryce, Christine Rocheford, and Professor Mark McWatt, all of whom have served on the committee for two decades announced that the 2017 competition was their last.

For only the third time in the competition's history, the judges opted not to award the top prize.

The Frank Collymore Literary Endowment awarded prizes to four Barbadian writers:

Prize	Name	Title	Category
1st Prize	Not awarded	----	----
2nd Prize	Heather Barker	The Plundering	Fiction
3rd Prize	Sonia Williams	Her Bald Head Luminous	Poetry
Prime Minister's Award	Shakira Bourne	Getting Back to Jack	Fiction
Honourable Mention	Amanda Haynes	Ups & Downs of Dessa Darling	Novella

Priorities for 2018

- Refining the Bank's communications strategy.
- Increasing the Bank's social media presence to better engage with the public on economic and other matters.
- Corporate rebranding exercise to standardise and modernise the Bank's publications and other materials.
- Hosting the 2018 CARICOM Governors' Meetings.

9. INTERNATIONAL RELATIONS

IMF

The Bank was represented on the Barbados delegations to the Spring and Annual meetings of the Boards of Governors of the World Bank Group and International Monetary Fund (IMF) in Washington, D.C. The events included meetings of Commonwealth Finance Ministers and Commonwealth Central Bank Governors, during which Governor Haynes spoke on the Bank's current thinking as it relates to the development of Fintech. The delegations also attended meetings of CEMLA Governors and the Inter-American Development Bank (IADB). Caribbean Governors met with IMF Managing Director Madame Christine Lagarde, discussing correspondent banking and other international economic and financial issues.

A team from the IMF visited Barbados during the year for the annual Article IV consultation. The meetings facilitated the IMF's regular monitoring of the economy, their review of the fiscal consolidation programme and provision of related policy advice. The team met with the Minister of Finance, the Governor of the Bank, representatives of the private sector, labour unions, academia and other agencies.

IADB/CDB

The Inter-American Development Bank (IADB) and the Caribbean Development Bank (CDB) made courtesy visits to the Bank along with various Government Ministries and Departments, and international organisations based in Barbados. Discussions involved macroeconomic issues, as well as possible country strategies for Barbados.

Regulatory Agencies

The Bank continued its work with well-recognised financial oversight bodies and made its annual visits to Canada to attend meetings with Canadian banks, regulatory authorities and other stakeholders in Toronto and Ottawa. The Bank benefits from this dialogue through gaining valuable insights into future plans and strategies of the Canadian banks and engaging in vibrant discussion and collaboration on matters of common concern. This year's discussions revolved around a range of thematic issues including: Cyber risk and security, Emergence of FinTech, Financial sector disaster recovery and the financial sector's role in Barbados' economic recovery and featured a presentation by Governor Haynes to investors.

PUBLICATIONS AND PAPERS PRESENTED

PUBLICATIONS

Alleyne, Antonio, Troy Lorde and Quinn Weekes. (2017)
"A Firm-Level Investigation of Innovation in the Caribbean."
Economic Journal, Vol 5(34).

Belgrave, Anton, Tiffany Grosvenor-Drakes and Shane Lowe. (2016)
"A Framework for Constructing a Housing Price Index - A Progress Report."
Journal of Eastern Caribbean Studies, Vol. 41(2).

Downes, Darrin, Nlandu Mamingi, Alexis Lescott and Laron Alleyne. (2017)
"Estimation of the Pass-Through Effect of International Food and Energy Prices on Domestic Prices: The Case of Barbados."
Central Bank of Barbados Working Papers.

Lorde, Troy, Jadon Jacob and Quinn Weekes (2017)
"Price-Setting Behaviour in the Tourism Sharing Economy: A Hedonic Price Analysis of Airbnb Listings in the Caribbean."
Central Bank of Barbados Working Papers.

PAPERS PRESENTED AT CONFERENCES

Belgrave, Anton, Shamika Walrond and Onoh-Obasi Okey;
"Forecasting Foreign Exchange Purchases and Sales."
37th Central Bank of Barbados Annual Review Seminar, Barbados, July 25-28, 2017.

Bennett, Rhea and Rudolph Browne;
"Measuring and Decomposing Seasonality in Barbados Tourist Arrivals."
37th Central Bank of Barbados Annual Review Seminar, Barbados, July 25-28, 2017.

Braithwaite, Lisa, Lauren Cato, Michael Brei and DeLisle Worrell; "Regulatory Reform and De-risking in Global Banking: The Case of Caribbean Banks."
49th Annual Monetary Studies Conference, Belize, November 8-10, 2017.

Braithwaite, Lisa, Michael Brei and Anton Belgrave;
"Bank Regulatory Reform: One Size for All?"
37th Central Bank of Barbados Annual Review Seminar, Barbados, July 25-28, 2017.

Braithwaite, Lisa, Michael Brei and Lauren Cato;

"De-risking from the Perspective of Caribbean Banks."

37th Central Bank of Barbados Annual Review Seminar, Barbados, July 25-28, 2017.

Cotton, Jason, Dhanielle Smith and Darrin Downes;

"The Islamic Finance Industry in the Caribbean Bank."

37th Central Bank of Barbados Annual Review Seminar, Barbados, July 25-28, 2017.

Downes, Darrin, Nlandu Mamingi, Alexis Lescott and Laron Alleyne; "Estimation of the Pass-Through Effect of International Commodity Prices on Domestic Inflation."

37th Central Bank of Barbados Annual Review Seminar, Barbados, July 25-28, 2017.

Downes, Darrin, Nlandu Mamingi, Alexis Lescott and Laron Alleyne; "Estimation of the Pass-Through Effect of International Food and Energy Prices on Domestic Prices."

49th Annual Monetary Studies Conference, Belize, November 8-10, 2017.

Lorde, Troy and Quinn Weekes;

"A Preliminary View of Economic and Tourism Activity in CARICOM from Outer Space."

37th Central Bank of Barbados Annual Review Seminar, Barbados, July 25-28, 2017.

Lorde, Troy, Quinn Weekes and Jadon Jacobs;

"The Tourism Sharing Economy in the Caribbean: A Hedonic Price Analysis of Airbnb Accommodations."

49th Annual Monetary Studies Conference, Belize, November 8-10, 2017.

Mamingi, Nlandu, Michelle Doyle-Lowe, Quinn Weekes and Sheldon Shepherd; "The Impact of Deregulation on the Banking System: A Case Study of Barbados."

37th Central Bank of Barbados Annual Review Seminar, Barbados, July 25-28, 2017.

Mamingi, Nlandu, Michelle Doyle-Lowe, Quinn Weekes and Sheldon Shepherd; "The Impact of Deregulation on the Banking System: Exploring the Facts for Barbados."

49th Annual Monetary Studies Conference, Belize, November 8-10, 2017.

Maynard, Tracy, Nichelle Yearwood, and Jamila Beckles;

"Estimating the Optimal Size of Government."

37th Central Bank of Barbados Annual Review Seminar, Barbados, July 25-28, 2017.

Worrell, DeLisle, Nlandu Mamingi and Quinn Weekes;

"Investment, Savings and the Current Account in the Small Open Financially Integrated Economies."

37th Central Bank of Barbados Annual Review Seminar, Barbados, July 25-28, 2017.

BOOK REVIEWS

Cato, Lauren (2017) Book Review:

"Shadow Banking: The Rise, Risks, and Rewards of Non-Bank Financial Services", by Roy J. Girasa. Palgrave Macmillan; 1st ed. 2016 edition (October 3, 2016).

Okey, Onoh-Obasi (2017) Book Review:

"Global Inequality: A New Approach for the Age of Globalization", by Branko Milanokavi.

The Belknap Press of Harvard University Press; 2016.

Weekes, Quinn (2017) Book Review:

"Banking Beyond Banks and Money: A Guide to Banking Services in the Twenty-First Century", by Paolo Tasca, Tomaso Aste, Loriana Pelizzon, and Nicolas Perony. Springer;

1st ed. 2016 edition (September 1, 2016).

ADOPTION OF FINANCIAL STATEMENTS 2017

Adoption of the Annual Financial Statements 2017

The Central Bank of Barbados Act CAP 323C requires the Bank to promote the general well-being of the Barbados economy. In this respect, we seek to explain how the Bank uses its assets and liabilities to achieve its purposes. We also provide information on proposed changes to the Central Bank of Barbados' legislation and the accounting environment.

The Balance Sheet

The Bank's Balance Sheet increased by \$58 million in 2017, after growth of \$519 million in 2016. Local securities increased by \$159 million as the Bank provided liquidity funding to Government through the purchase of Treasury Bills (\$199m), and this was off set by a decline in the holdings of Treasury Notes and Debentures (\$39m). The statutory lending limit on advances to Government is \$294 million in accordance with Government's estimates of revenue for the fiscal year and amounts outstanding were within the statutory limit. Foreign reserves declined by \$136 million and in order to maintain liquidity, the Bank liquidated some of the holdings of SDRs (Special Drawing Rights) and arranged a margin loan of US \$50m with an asset manager.

Notes and coins in circulation increased by \$20 million while commercial banks' deposits at the Bank decreased by \$125 million, reflecting changes in the commercial banks reserve ratio. Government deposits with the Bank increased by \$31.5 million during the year.

Statement of Profit and Loss

The Bank continued its risk-averse approach to securities management and accordingly, investments are not held to maximize earnings but to maintain economic stability and support Government policy. Total income increased by \$18.6 million from \$80.6 million in 2016 due to earnings on the expanded portfolio of government securities.

Income on foreign securities declined by \$4.7 million. The yields on the Bank's investment portfolio remained low and the situation was adversely impacted by the need to liquidate securities because of the demand for foreign exchange.

Foreign interest rates (Fedfunds rate) gradually increased to 150bps during the financial year.

A regional Government restructured an outstanding bond and there was an investment impairment recovery of \$71,000.

Operating Expenses

Total expenses remained flat at \$52.3 million and there were no unusual or non-recurring items. Administrative Expenses were flat. Salaries and allowances and retirement benefits decreased by \$2.0 million and there was an increase of 0.5 million in Printing of Notes.

Results for the Year

The Bank earned net profit of \$46.9 million during the year. The Profit and Loss Appropriation was approved by the Minister of Finance and Economic Affairs.

Future Accounting Changes

The Bank's financial statements are currently prepared in accordance with the Central Bank Act and International Financial Reporting Standards (IFRS) with disclosure limitations. The Bank and the Ministry of Finance and Economic Affairs are in the process of revising the Central Bank of Barbados Act and incorporating changes to the regulatory accounting and reporting framework. In the interim, the Bank will continue to identify key areas of difference between current reporting standards and IFRS. The impact of adopting IFRS has not been determined at this time.

Adoption of Financial Statements

Annexed to this report are the Auditors' Certificate, Balance Sheet as at December 31, 2017, the Profit and Loss Account, the Profit and Loss Appropriation Account, Statement of Cash Flows and explanatory notes to financial statements.

The Board of Directors, on recommendation of the Audit Committee, has adopted the Financial Statements duly certified by the Auditors for the year ended December 31, 2017.

FINANCIAL STATEMENTS AND REPORTS

DECEMBER 31, 2017

TABLE OF CONTENTS

Independent Auditors' Report	36-37
Balance Sheet	38-39
Profit and Loss Account	40
Profit and Loss Appropriation Account	41
Statement of Cash Flows	42-43
Notes to Financial Statements	44-54





INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Central Bank of Barbados

Opinion

We have audited the financial statements of the Central Bank of Barbados (the "Bank"), which comprise the balance sheet as at December 31, 2017, profit and loss account, profit and loss appropriation account and statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements are prepared in all material respects, in accordance with the Central Bank of Barbados Act, Cap 323C and the significant accounting policies stipulated in Note 1.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Barbados, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements in accordance with the Central Bank of Barbados Act, Cap 323C and the significant accounting policies stipulated in Note 1, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

INDEPENDENT AUDITORS' REPORT, CONTINUED

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- In addition, we read all the financial and nonfinancial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG

Chartered Accountants
Bridgetown, Barbados
February 22, 2018

BALANCE SHEET

December 31, 2017

with corresponding figures for 2016

ASSETS

	NOTES	<u>2017</u>	<u>2016</u>
		BDS\$	BDS\$
RESERVE OF EXTERNAL ASSETS:			
Balances Held Abroad	2	68,843,072	30,377,431
Foreign Notes and Coins		10,344,645	34,331,714
Foreign Securities	3	<u>297,908,430</u>	<u>387,064,281</u>
		<u>377,096,147</u>	<u>451,773,426</u>
International Monetary Fund:			
Reserve Tranche	4	34,621,567	35,790,874
Holdings of Special Drawing Rights	4	<u>81,899,548</u>	<u>141,751,579</u>
		<u>116,521,115</u>	<u>177,542,453</u>
Total Reserve of External Assets		<u>493,617,262</u>	<u>629,315,879</u>
LOCAL ASSETS:			
Local Securities:			
Barbados Government Treasury Bills	5	1,334,893,769	1,136,313,807
Barbados Government Debentures	5	597,464,000	636,164,000
Other	5	<u>-</u>	<u>796,867</u>
		<u>1,932,357,769</u>	<u>1,773,274,674</u>
Advances:			
Government		285,350,000	264,430,000
Fixed Assets (Net)	6	108,006,838	96,167,558
Other Assets	7	<u>84,575,408</u>	<u>82,650,384</u>
Total Local Assets		<u>2,410,290,015</u>	<u>2,216,522,616</u>
		<u><u>2,903,907,277</u></u>	<u><u>2,845,838,495</u></u>

See accompanying notes to accounts.

BALANCE SHEET (CONTINUED)

December 31, 2017

with corresponding figures for 2016

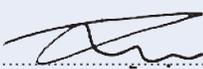
LIABILITIES, CAPITAL AND RESERVES

	NOTES	<u>2017</u>	<u>2016</u>
		BDS\$	BDS\$
LIABILITIES:			
Notes and Coins in Circulation	8	<u>749,941,715</u>	<u>730,326,502</u>
Deposits:			
Government		56,414,585	24,887,843
Banks		1,625,962,132	1,751,145,244
Financial Institutions		2,078,628	1,177,048
Other		<u>6,746,357</u>	<u>4,413,624</u>
		<u>1,691,201,702</u>	<u>1,781,623,759</u>
Other Liabilities:			
Allocation of Special Drawing Rights	9	177,509,043	183,504,223
Loan Facility	3(c), 11	100,000,000	-
Other	10	<u>149,254,817</u>	<u>131,884,011</u>
		<u>426,763,860</u>	<u>315,388,234</u>
Total Liabilities		<u>2,867,907,277</u>	<u>2,827,338,495</u>
Other Funds	12	<u>500,000</u>	<u>500,000</u>
CAPITAL AND RESERVES:			
Authorized Capital: <u>BDS\$5,000,000</u>			
Paid up Capital: Government of Barbados		2,000,000	2,000,000
Contributed Surplus	6	8,500,000	-
General Reserve		<u>25,000,000</u>	<u>16,000,000</u>
Net Capital and Reserves		<u>35,500,000</u>	<u>18,000,000</u>
Commitments and Contingencies	13		
		<u>2,903,907,277</u>	<u>2,845,838,495</u>

See accompanying notes to accounts.

Approved on behalf of the Board of Directors on February 22, 2018

 Governor

 Financial Controller (Ag.)

PROFIT AND LOSS ACCOUNT

For the year ended December 31, 2017
with corresponding figures for 2016

	NOTES	<u>2017</u>	<u>2016</u>
		BDS\$	BDS\$
INCOME:			
Commissions and Fees		8,694,689	8,234,730
Discounts:			
Treasury Bills		38,138,655	21,803,514
Interest:			
Advances		8,798,689	8,547,006
Deposits		168,018	265,911
Securities		39,400,558	40,901,122
Other Income	14	2,988,269	1,355,338
Investment Impairment Recovery	3(b)	70,812	471,000
Foreign Exchange Gain (Loss)		1,169,737	(1,129,614)
Gain on Disposal of Fixed Assets		92	32,168
(Loss) Gain on Sale of Foreign Securities		(240,735)	134,416
		<u>99,188,784</u>	<u>80,615,591</u>
EXPENSES:			
Administrative Expenses		17,255,172	17,415,408
Depreciation	6	4,168,122	3,959,998
Interest		274,784	110,830
Minting of Coins		700,855	614,710
Printing of Notes		1,316,212	854,850
Retirement Benefits	15	1,465,736	2,001,188
Salaries and Allowances		27,095,925	28,587,665
		<u>52,276,806</u>	<u>53,544,649</u>
Operating Expenses		<u>52,276,806</u>	<u>53,544,649</u>
Profit before Appropriation		<u><u>46,911,978</u></u>	<u><u>27,070,942</u></u>

See accompanying notes to accounts.

PROFIT AND LOSS APPROPRIATION ACCOUNT

For the year ended December 31, 2017
with corresponding figures for 2016

	<u>2017</u>	<u>2016</u>
	BDS\$	BDS\$
Balance brought forward	-	(12,878,765)
Profit before Appropriation	<u>46,911,978</u>	<u>27,070,942</u>
Available for Appropriation	46,911,978	14,192,177
Repayment of Security transferred under Sec 7(4) of the Central Bank of Barbados Act, Cap. 323C (Note 5)	(796,867)	(7,096,089)
Transfer to General Reserve	(9,000,000)	-
Transfer to Frank Collymore Literary Endowment Fund	(1,000,000)	-
Transfer to the Consolidated Fund	<u>(36,115,111)</u>	<u>(7,096,088)</u>
Balance carried forward	<u>-</u>	<u>-</u>

Note: The appropriation of profit has been made in accordance with Section 9 of the Central Bank of Barbados Act, Cap. 323C.

See accompanying notes to accounts.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2017
with corresponding figures for 2016

NOTES	2017	2016
	BDS\$	BDS\$
Cash flows from operating activities		
Profit before appropriation	46,911,978	27,070,942
Adjustments for:		
Depreciation	4,168,122	3,959,998
Gain on disposal of fixed assets	(92)	(32,168)
Investment impairment recovery	(70,812)	(471,000)
	51,009,196	30,527,772
Operating profit before working capital changes		
Increase in other assets	(1,925,024)	(30,567,004)
Net decrease in foreign securities	89,226,663	139,645,306
Decrease (increase) in reserve tranche	1,169,307	(19,368,992)
Decrease in holdings of Special Drawing Rights	59,852,031	18,017,628
Increase in local securities	(159,083,095)	(695,676,318)
Decrease in government advances	(20,920,000)	(32,358,000)
(Decrease) increase in deposits	(90,422,057)	441,345,390
Increase in other liabilities	17,370,806	1,929,701
	(53,722,173)	(146,504,517)
Net cash used in operating activities		
Cash flows used in investing activities		
Purchase of fixed assets	(7,507,406)	(4,021,787)
Proceeds from sale of fixed assets	96	32,904
	(7,507,310)	(3,988,883)
Net cash used in investing activities		
Cash flows from financing activities		
(Decrease) increase in allocation of Special Drawing Rights	(5,995,180)	1,412,908
Increase in notes and coins in circulation	19,615,213	61,901,174
Increase in loan facility	100,000,000	-
Decrease in other funds	-	(47,672)
Transfer to Frank Collymore Endowment Fund	(1,000,000)	-
Repayment of security transferred under Sec 7(4)	(796,867)	(7,096,089)
Transfer to Consolidated Fund	(36,115,111)	(7,096,088)
	75,708,055	49,074,233
Net cash from financing activities		

STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended December 31, 2017
with corresponding figures for 2016

	NOTES	<u>2017</u>	<u>2016</u>
		BDS\$	BDS\$
Net increase (decrease) in cash and cash equivalents		14,478,572	(101,419,167)
Cash and cash equivalents at beginning of year		<u>64,709,145</u>	<u>166,128,312</u>
Cash and cash equivalents at end of year		<u><u>79,187,717</u></u>	<u><u>64,709,145</u></u>
<i>Cash and cash equivalents comprise:</i>			
Current Account Balances	2	68,843,072	30,377,431
Foreign Notes and Coins		<u>10,344,645</u>	<u>34,331,714</u>
		<u><u>79,187,717</u></u>	<u><u>64,709,145</u></u>

See accompanying notes to accounts.

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

1. SIGNIFICANT ACCOUNTING POLICIES

The Central Bank of Barbados is incorporated under the Central Bank of Barbados Act CAP 323C (CBB Act) and is responsible for the administration of the Financial Institutions Act, CAP 324A and the International Financial Services Act, CAP 325. The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all of the years presented.

Under the CBB Act, the Bank in preparing financial statements is subject to requirements of the Act. The financial statements comprise the Balance Sheet, Profit and Loss Account, Profit and Loss Appropriation Account, Statement of Cash Flows and related notes.

The financial statements of the Bank have been prepared in accordance with the measurement and recognition requirements of International Financial Reporting Standards (IFRS) ("adopted IFRS"), except for the limitations noted below. Adopted IFRS and the CBB Act have been used as a model for the presentation and disclosure framework to provide additional information and analysis of key items in the financial statements, except for the measurement of unfunded pension liability and certain other limitations as outlined below.

As a result, the financial statements of the Bank disclose less detail of certain elements than would be required under adopted IFRS. Disclosure and measurement limitations include:

- Business segments
- Information on credit risk
- Non-consolidation of entities owned and or managed by the Bank
- Employee benefits
- Financial assets
- Numismatic coins

The financial statements have been prepared on the historical cost basis of accounting, modified to include financial assets that are available for sale. The measurement of certain foreign securities is considered as "Available for Sale" under IFRS with the resulting unrealized gains carried forward in the Balance Sheet.

Related party disclosure is limited as set out in Note 14.

Other significant accounting policies:

(a) Use of Estimates and Judgment:

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2017

1. SIGNIFICANT ACCOUNTING POLICIES, continued

(b) *Income and Expenses:*

Income and expenses are accounted for on an accrual basis except interest on the CRL Ltd., which is recognized when received.

(c) *Translation of Foreign Currencies:*

Assets and liabilities designated in foreign currencies are translated at the rates of exchange prevailing at the balance sheet date. Gains and losses resulting from foreign currency translations and transactions are included in the Profit and Loss Account.

(d) *Foreign Securities:*

Treasury bills and unquoted securities are valued at amortized cost.

Other securities are valued at market and the resulting gains and/or losses on revaluation which are deferred pending realization, are included in other funds and/or other assets.

(e) *Numismatic Coins:*

The nominal value of numismatic coins sold is not included in 'notes and coins in circulation' while the net proceeds from sales are included in the Profit and Loss Account under Other Income.

(f) *Local Securities:*

Local securities are valued at amortized cost.

(g) *Depreciation:*

Furniture, equipment, motor vehicles and buildings including the Frank Collymore Hall are depreciated on the straight-line basis over their estimated useful lives.

(h) *Retirement Benefits:*

The Bank contributes to a defined benefit plan. The plan is funded by payments from the Bank, by taking account of the recommendations of an independent qualified actuary. The cost of providing retirement benefits is determined using the Projected Unit Credit Method. However, for financial reporting purposes, the contributions are charged against income as they are accrued.

(i) *Impairment of Financial Assets:*

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss (for securities carried at amortized cost) is calculated as the difference between the assets' carrying amount and the value of expected future cash flows discounted at the financial instruments' original effective interest rate. Impairment losses are recognized in the Profit and Loss Account.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2017

(j) *Amortized Cost:*

All non-trading financial assets are measured at amortized cost less impairment losses. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective rate of the instrument.

(k) *Loans and Advances*

Loans and advances are financial assets with fixed or determinable payments.

Advances to Government are provided under the Financial Management and Audit Act, 2007 – 11, Section 13(1) and are approved annually by the Board. Management reviews these balances daily and ensures that the amounts are within the statutory limit.

2. BALANCES HELD ABROAD

Balances held abroad comprise:

	<u>2017</u>	<u>2016</u>
	\$	\$
Current accounts and deposits with foreign banks	<u>68,843,072</u>	<u>30,377,431</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2017

3. FOREIGN SECURITIES

Foreign securities comprise:	2017		2016	
	Amortized Cost \$	Market Value \$	Amortized Cost \$	Market Value \$
Bonds/Debentures	300,854,961	297,595,083	389,270,294	386,750,934
Equities	285,851	313,347	285,851	313,347
	<u>301,140,812</u>	<u>297,908,430</u>	<u>389,556,145</u>	<u>387,064,281</u>

- (a) The net unrealized loss of \$3,232,382 (2016: \$2,491,864) arose on the revaluation of securities and is included in Other Assets at Note 7.
- (b) Investment impairment recovery of \$70,812 (2016: \$471,000) on the Government of Grenada bond is included in the Profit and Loss account.
- (c) Foreign securities include an amount of \$100,000,000, which is pledged as security to support the loan facility as further described in Note 11.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2017

4. RESERVE TRANCHE – HOLDINGS/ALLOCATION OF SPECIAL DRAWING RIGHTS

Special Drawing Rights (SDR) is an international reserve asset, created by the International Monetary Fund (IMF) and its value is based on a basket of four key international currencies.

The Reserve Tranche and Holdings of Special Drawing Rights pertain to the value of SDRs at December 31, 2017. The balances held at December 31, 2017 amounted to SDR 12,555,543 (2016: SDR 12,555,546) and SDR 29,700,953 (2016: SDR 49,726,879) respectively. The rate of translation of SDRs into Barbados dollars at December 31, 2017 is BDS \$1 = SDR 0.362651 (2016: BDS \$1 = SDR 0.350803).

5. LOCAL SECURITIES

Local securities comprise:

	2017		2016	
	Nominal Value \$	Cost \$	Nominal Value \$	Cost \$
Barbados Government Treasury Bills	1,344,879,500	1,334,893,769	1,144,833,500	1,136,313,807
Barbados Government Debentures	597,464,000	597,464,000	636,164,000	636,164,000
Other	-	-	796,867	796,867
	<u>1,942,343,500</u>	<u>1,932,357,769</u>	<u>1,781,794,367</u>	<u>1,773,274,674</u>

Other local securities represent a non-negotiable, non-interest bearing security transferred to the Bank in accordance with CAP. 323C, Sec 7(4) and is redeemable in accordance with Sec 9(2) (a) of the Act. During the year ended December 31, 2017, the Bank allocated \$796,867 (2016:\$7,096,089) towards the repayment of the non-interest bearing security.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2017

6. FIXED ASSETS (NET)

a) Fixed assets comprise:

	Freehold Land and Buildings	Furniture, Plant and Equipment	Motor Vehicles	Total
	\$	\$	\$	\$
Cost:				
January 1, 2016	108,669,501	66,329,441	768,112	175,767,054
Additions	1,722,601	2,299,186	-	4,021,787
Disposal/write-offs	-	(18,660)	(237,401)	(256,061)
December 31, 2016	110,392,102	68,609,967	530,711	179,532,780
January 1, 2017	110,392,102	68,609,967	530,711	179,532,780
Additions	11,241,367	4,642,664	123,375	16,007,406
Disposal/write-offs	-	(2,623)	-	(2,623)
December 31, 2017	121,633,469	73,250,008	654,086	195,537,563
Accumulated Depreciation:				
January 1, 2016	29,134,933	49,795,719	729,897	79,660,549
Charge for the year	1,661,774	2,263,151	35,073	3,959,998
Eliminated on disposals	-	(17,936)	(237,389)	(255,325)
December 31, 2016	30,796,707	52,040,934	527,581	83,365,222
January 1, 2017	30,796,707	52,040,934	527,581	83,365,222
Charge for the year	1,706,330	2,444,693	17,099	4,168,122
Eliminated on disposals	-	(2,619)	-	(2,619)
December 31, 2017	32,503,037	54,483,008	544,680	87,530,725
Net Book Values:				
December 31, 2017	89,130,432	18,767,000	109,406	108,006,838
December 31, 2016	79,595,395	16,569,033	3,130	96,167,558
December 31, 2015	79,534,568	16,533,722	38,215	96,106,505

b) During 2017, the Government of Barbados approved and conveyed to the Bank certain property at Church Village, Bridgetown which carried a valuation of \$8,500,000. This transfer has also been recorded as an increase to Contributed Surplus.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2017

7. OTHER ASSETS

Other assets include:

	<u>2017</u>	<u>2016</u>
	\$	\$
Accrued income	11,992,378	11,262,265
Cheques in process of collection	14,166,106	19,342,358
CRL Limited ^(a)	9,000,000	9,000,000
New Life Insurance Company Limited ^(b)	20,569,459	16,441,735
Prepayments	4,600,309	2,507,702
Staff advances	18,815,784	19,538,201
Unrealised loss on revaluation of security (Note 3)	3,232,382	2,491,864
Sundry balances	<u>2,198,990</u>	<u>2,066,259</u>
	<u>84,575,408</u>	<u>82,650,384</u>

(a) The CRL Limited loan, which bears interest at a rate of 6% per annum was originally due from the Barbados Development Bank. During 1998, the facility was transferred to CRL Limited. The Government of Barbados has issued a letter of comfort in respect of this loan. The Government has undertaken to repay the debt on behalf of CRL Limited. At December 31, 2017, the cumulative interest not recognized was \$7,021,973 (2016: \$6,481,973).

(b) The advance to New Life Investment Company Inc., earns interest at the average Treasury bill rate and is guaranteed by the Government of Barbados. The advance is due for repayment on March 31, 2018, with the provision for annual roll over on approval of the Board.

8. NOTES AND COINS IN CIRCULATION

At December 31, 2017, the nominal value of numismatic coins sold, totaled approximately \$10.4 million (2016:\$10.4 million) and is excluded from 'Notes and Coins in Circulation' (See Note 1 (e)).

9. ALLOCATION OF SPECIAL DRAWING RIGHTS

This amount represents the liability to the International Monetary Fund in respect of Special Drawing Rights (SDRs) allocated by the Fund. This allocation does not change unless there are cancellations or further allocations. Accordingly changes arise from annual revaluations done by the Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2017

10. OTHER

This amount comprises:

	<u>2017</u>	<u>2016</u>
	\$	\$
Accounts payable	4,033,214	2,288,779
Contribution payable - UWI Fund re Chair in Banking	861,169	861,169
Debenture interest payment account	(24,013)	(253,814)
Deposit Insurance Company accounts	65,056	702,226
Domestic clearing	32,990,782	30,356,132
Dormant accounts (i)	15,604,888	27,414,616
Frank Collymore Literary Endowment Fund	1,000,000	-
Housing Credit Fund General account	6,506,250	21,520,369
Industrial Credit Fund	22,272,550	26,571,299
Redemption of Debentures account	39,667,620	18,320,620
Sinking Fund Contribution account (ii)	21,761,195	-
Staff Pension Fund	95,093	286,580
Staff Welfare Fund	6,066	6,066
Sundry balances	4,414,947	3,809,969
	<u>149,254,817</u>	<u>131,884,011</u>

(i) Dormant accounts comprise:

	<u>2017</u>	<u>2016</u>
	\$	\$
Banks – local and international (a)	5,194,253	17,251,223
Financial Services Commission (b)	10,410,635	10,163,393
	<u>15,604,888</u>	<u>27,414,616</u>

(a) Deposits made by Banks represent abandoned property for which no activity was evidenced for a period of 10 years and said property is deposited with the Central Bank of Barbados in accordance with Section 88 (3) of the Financial Institutions Act, 1997-16; and

(b) In accordance with the Financial Services Commission Act, this amount represents security deposits from insurance companies and abandoned property in the form of unclaimed matured insurance policies.

(ii) This account is set up in accordance with the Local Loans Act CAP 98, the External Loans Act CAP 94D and the General Loan and Stock Act CAP 95 and represents the uninvested funds held for the redemption of local and foreign debt.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2017

11. LOAN FACILITY

During 2017, the Bank entered into a margin loan facility amounting to \$100,000,000. The facility bears interest at the FedFunds rate plus 40bps (effective rate: 1.65%) per annum and is repayable on demand.

12. OTHER FUNDS

This amount comprises the following balances:

	<u>2017</u>	<u>2016</u>
	\$	\$
Special Credit Trust	<u>500,000</u>	<u>500,000</u>

The Special Credit Trust was established under Section 41 of the Central Bank of Barbados Act to provide for the holding of debt obligations and or equity instruments as the Board may determine.

13. COMMITMENTS AND CONTINGENCIES

(a) At December 31, 2017, the Bank had guaranteed settlement of approximately \$4,323,724 (2016: \$4,389,322) under the following schemes:

	<u>2017</u>		<u>2016</u>	
	<u>Value of Contracts</u>	<u>Guarantee</u>	<u>Value of Contracts</u>	<u>Guarantee</u>
	\$	\$	\$	\$
Credit Insurance Scheme for Small Businesses	5,053,005	4,207,725	4,543,005	3,748,725
Export Credit Insurance and Guarantee Scheme	-	-	600,000	600,000
Trade Receivables Credit Facility	<u>116,214</u>	<u>115,999</u>	<u>40,903</u>	<u>40,597</u>
	<u>5,169,219</u>	<u>4,323,724</u>	<u>5,183,908</u>	<u>4,389,322</u>

(b) Additionally, at December 31, 2017, the Bank had contracts for capital expenditure in the amount of \$5,347,000 (2016: \$5,994,836).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

December 31, 2017

14. RELATED PARTY TRANSACTIONS

Other income includes management fees and dividends received as follows:

	<u>2017</u>	<u>2016</u>
<i>Management Fees:</i>	\$	\$
Industrial Credit Fund	264,587	254,480
Housing Credit Fund	470,545	462,158
<i>Dividends:</i>		
Industrial Credit Fund	<u>1,550,000</u>	<u>-</u>
	<u>2,285,132</u>	<u>716,638</u>

At December 31, 2017, the Bank owned and/or managed certain entities. The gross assets as disclosed in the entities' financial statements are as follows:

	<u>2017</u>	<u>2016</u>
	\$	\$
Export Credit Insurance	11,588,876	11,440,499
Small Business Guarantee	10,412,252	9,954,514
Industrial Credit Fund	106,164,240	116,734,992
Housing Credit Fund	<u>135,168,517</u>	<u>133,271,601</u>
	<u>263,333,885</u>	<u>271,401,606</u>

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

15. RETIREMENT BENEFITS

The Bank has established a non-contributory retirement plan for the benefit of its employees. The plan is a defined benefit plan. The assets of the plan are held in separate trust administered funds. A full actuarial valuation is obtained from an independent valuer at least every three years and a review is done annually. The most recent valuation carried out at December 31, 2016 revealed the following:

	<u>2016</u>
	\$
Fair value of plan assets	155,219,857
Actuarial present value of liabilities	<u>145,113,826</u>
Surplus	<u><u>10,106,031</u></u>

The actuarial present value of the liabilities was determined using the Projected Unit Credit Method. The principal assumptions used in the latest valuation were:

	<u>2016</u>
Rate of return of assets	6% per annum
Rate of salary inflation and promotional increases	4% per annum
Rate of escalation of NIS Ceiling	3% per annum
Rate of pension increases	2% per annum

At December 31, 2016, the actuary has recommended funding rate of 11.03% of covered payroll be used for new benefits, less a rate of 3.78% to allow the amortization of the surplus over a period of fifteen (15) years. The total recommended funding rate of 7.25% of covered payroll should be obtained until the next valuation.

16. TAXATION

The Bank is exempt from corporation tax in accordance with Section 56 of the Central Bank of Barbados Act, Cap. 323C.



CENTRAL BANK
OF BARBADOS

2017 ANNUAL REPORT

TOM ADAMS FINANCIAL CENTRE
CHURCH VILLAGE
BRIDGETOWN
ST. MICHAEL
TEL: (246) 436-6870
WWW.CENTRALBANK.ORG.BB

