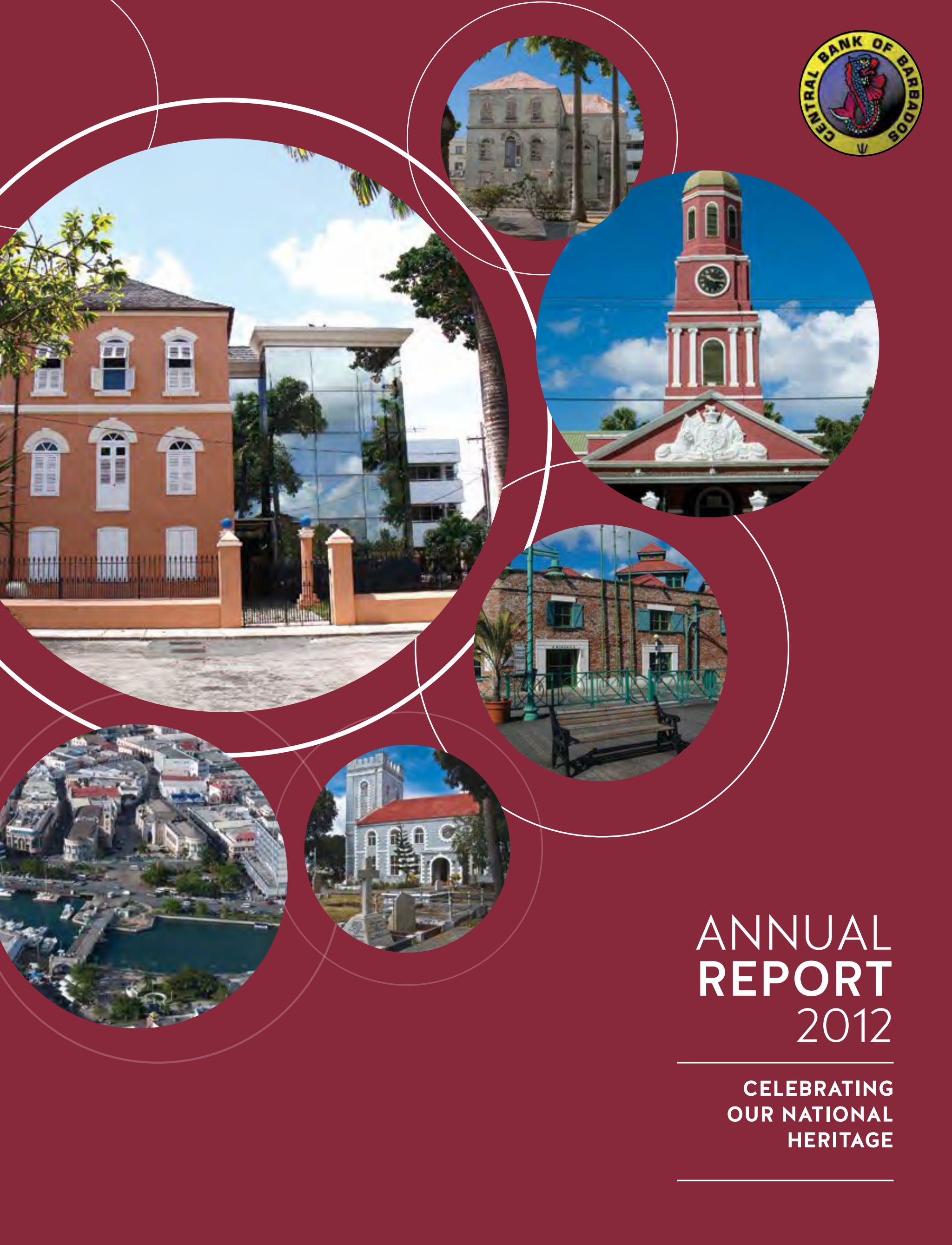
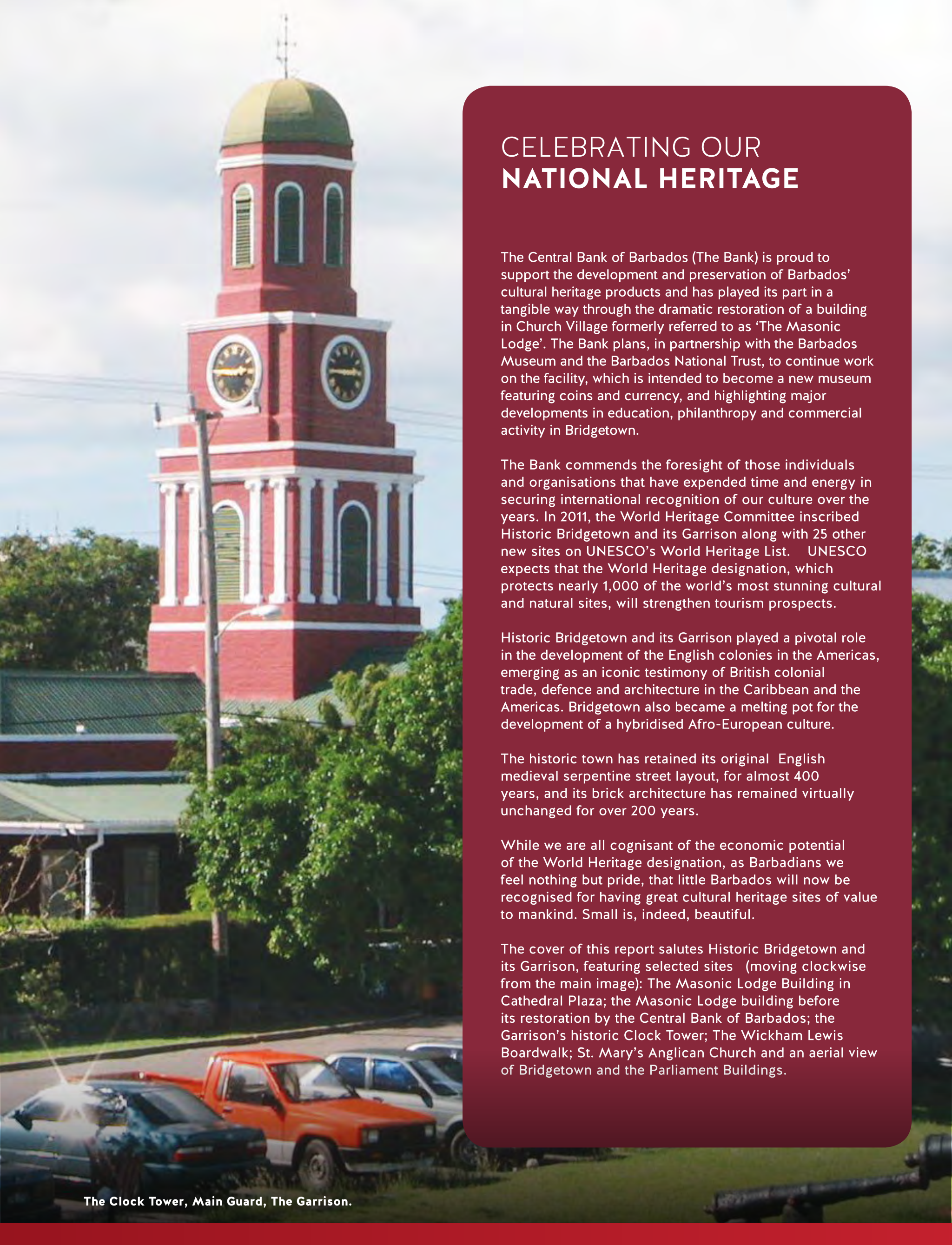




ANNUAL REPORT 2012

CELEBRATING
OUR NATIONAL
HERITAGE



CELEBRATING OUR NATIONAL HERITAGE

The Central Bank of Barbados (The Bank) is proud to support the development and preservation of Barbados' cultural heritage products and has played its part in a tangible way through the dramatic restoration of a building in Church Village formerly referred to as 'The Masonic Lodge'. The Bank plans, in partnership with the Barbados Museum and the Barbados National Trust, to continue work on the facility, which is intended to become a new museum featuring coins and currency, and highlighting major developments in education, philanthropy and commercial activity in Bridgetown.

The Bank commends the foresight of those individuals and organisations that have expended time and energy in securing international recognition of our culture over the years. In 2011, the World Heritage Committee inscribed Historic Bridgetown and its Garrison along with 25 other new sites on UNESCO's World Heritage List. UNESCO expects that the World Heritage designation, which protects nearly 1,000 of the world's most stunning cultural and natural sites, will strengthen tourism prospects.

Historic Bridgetown and its Garrison played a pivotal role in the development of the English colonies in the Americas, emerging as an iconic testimony of British colonial trade, defence and architecture in the Caribbean and the Americas. Bridgetown also became a melting pot for the development of a hybridised Afro-European culture.

The historic town has retained its original English medieval serpentine street layout, for almost 400 years, and its brick architecture has remained virtually unchanged for over 200 years.

While we are all cognisant of the economic potential of the World Heritage designation, as Barbadians we feel nothing but pride, that little Barbados will now be recognised for having great cultural heritage sites of value to mankind. Small is, indeed, beautiful.

The cover of this report salutes Historic Bridgetown and its Garrison, featuring selected sites (moving clockwise from the main image): The Masonic Lodge Building in Cathedral Plaza; the Masonic Lodge building before its restoration by the Central Bank of Barbados; the Garrison's historic Clock Tower; The Wickham Lewis Boardwalk; St. Mary's Anglican Church and an aerial view of Bridgetown and the Parliament Buildings.



CENTRAL BANK OF BARBADOS
ANNUAL REPORT 2012

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ACKNOWLEDGEMENTS

Images used on the cover, except for the renovated Masonic Lodge photo, are the property of the Division of Culture and Sports, and were taken by Willie Alleyne Associates Photography, Ltd. which also supplied photographs on pages 6 and 18. Photographs on pages 15 and 37 were taken by Laurie Blackman; others are the property of the Central Bank of Barbados.

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Peter Whitehall

Administrative Coordinator:
Laurie Blackman

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Originally built in the early 1700s, the Masonic Lodge is regarded as a building of 'Special Architectural or Historic Interest'.

LETTER OF TRANSMITTAL

R. DeLisle Worrell, Ph.D
Governor

Tom Adams Financial Centre
P.O. Box 1016, Spry Street
Bridgetown BB11126, Barbados, W.I.

March 28, 2013

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

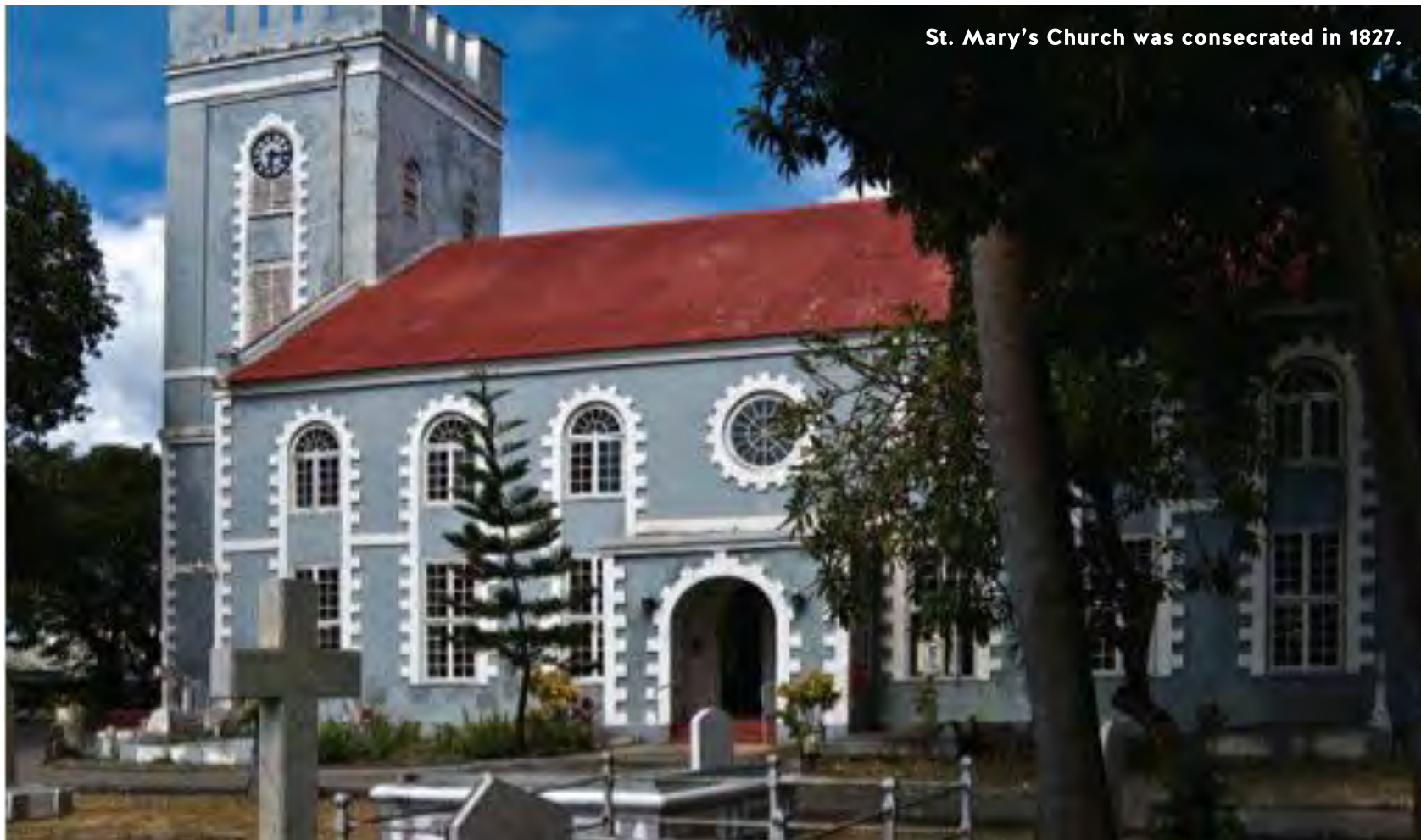
Dear Minister

In accordance with Section 52(2) of the Central Bank 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, 2012 as certified by the External Auditors in accordance with Section 51 of the Act, together with the Report on its operations during 2012.

The original of the Auditors' Report and Certificate was forwarded to you with my letter of March 27, 2013.

Sincerely,





St. Mary's Church was consecrated in 1827.

OUR VISION

The Vision of the Central Bank of Barbados is to create and maintain a caring, happy, dynamic, world-class organisation nurtured within a cooperative culture.

MISSION STATEMENT

The Mission of the Central Bank of Barbados is to foster an economic and financial environment conducive to sustainable economic growth and development.

CORPORATE PROFILE

The Central Bank of Barbados, 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.

OUR VALUES

The Bank's pursuit of its Mission is guided by a set of fundamental principles and values. These define the approach to be taken by management and staff in the performance of their duties and in their interaction with each other and with the Bank's several publics.

These principles and values are as follows: -

- **INNOVATION AND HIGH PERFORMANCE**

We believe that new ideas, the promotion of critical thinking, inquisitiveness, nimbleness and flexibility will enhance our ability to achieve high performance in all of our endeavours.

- **INTEGRITY AND TRANSPARENCY**

We acknowledge that our performance, success and reputation hinge on the highest standard of ethical behaviour. We therefore promise to provide open communication and to be consistent in our application of policies across the organisation. We will always practice honesty and fiscal responsibility in all of our undertakings as a way of building trust among our stakeholders and getting public support for our policy initiatives.

- **RESPECT AND EMPATHY**

We are committed to building relationships through respect for each other, respect for diversity and open dialogue. We will promote and acknowledge behaviours that demonstrate genuine care and concern for the well-being and welfare of others.

- **ACCOUNTABILITY**

We will be accountable to all of our stakeholders by being timely, open and accurate with our information and data, and in our actions. We will ensure the safety and security of all assets and resources under our responsibility, so as to engender the peace of mind of all our publics.

- **DEVELOPMENT AND INCLUSIVENESS**

We value the development of our staff through education, training and shared knowledge and experiences. We also encourage their participation and involvement in the decision making process.

HIGHLIGHTS OF 2012

- 1** The economy maintained a comfortable level of foreign reserves and lower inflation, but the weak international environment limited growth prospects.
- 2** The Central Bank continued to strengthen the framework for the implementation of economic policy with the main goals of fiscal consolidation and improved debt management. The Bank's policy initiatives were again buttressed by an active research agenda.
- 3** The Barbadian banking system remained stable during 2012, as banks were profitable and well capitalised.
- 4** The Bank issued the first Financial Stability Report and an International Business and Financial Services Newsletter.
- 5** The Bank upgraded a number of key systems, including accounts and Real Time Gross Settlement (RTGS). The Bank also introduced straight-through processing (STP) of interest payments and redemption proceeds for holders of Government of Barbados securities.
- 6** The Bank deepened its engagement with its publics through internet and television and by arranging lectures by internationally renowned speakers on economic, financial and human resource issues.
- 7** There were further efforts to improve management capacity, employee welfare and organisational culture, and for the first time, the Bank organised a national Emotional Intelligence conference and a Regional Central Banks' Security Chiefs conference.
- 8** The Bank partnered with Rotary Clubs of Barbados and the Barbados Alzheimer's Association to collect ten (10) million one cents for recirculation, and also to help finance the establishment of a day care centre for sufferers of Alzheimer's disease.
- 9** The Bank staged a series of events commemorating four decades of service to the nation.



Staff members Kirk Beckford and Yvonne Parris cut the 40th Anniversary Cake on May 2nd, the date on which their birthdays fall, and the date of the Bank's birthday.

GOVERNOR'S MESSAGE

In 2012 the Barbados economy continued to grapple with the challenges created by the ongoing uncertainty arising from the weak performance of the advanced economies.

MACROECONOMIC DEVELOPMENTS

The adverse effect of the weak international environment on the tourism sector helped to contain overall economic growth prospects. However, inflation slowed and monetary stability was preserved as a moderate improvement in foreign exchange reserves contributed to an enhanced capacity to withstand external shocks. In addition, the financial system remained stable as measured by bank capitalisation and bank liquidity.

The country's economic strategy remained centred on fiscal consolidation during the year. Government sought to contain the growth of debt through implementation of its Medium Term Fiscal Strategy. However, the fiscal outturn was somewhat weaker than the previous year.

Other key features of the policy framework included maintaining an exchange rate anchor, fiscal consolidation and improved competitiveness through higher quality, better service and improved business facilitation.



Dr. DeLisle Worrell, Governor

Both Standard and Poor's and Moody's lowered the classification of Barbados Government debt below investment grade.

ENGAGING THE PUBLIC

The focus of the Bank's communications strategy was on sending clear and influential messages about the operation and management of our economy to Barbadians, foreign investors and international institutions.

The Bank's central message was that the sustained growth of the Barbados economy required growth of the activities that earn or save foreign exchange (i.e., tourism, international business, agro-processing and alternative energy). Investment in these sectors, enhancement of the quality of Barbados' products and services, and creative market development approaches, are among the strategies that should lead to growth of the foreign exchange earning sectors. In addition, Barbados must enhance

its perceived competitiveness in global markets. In the most recent Global Competitiveness Report, Barbados scores well in terms of infrastructure, education, institutional strength and communications, but major improvement is needed in business facilitation.

The Bank continued its efforts to provide leadership to Barbados and the region on economic and financial issues. The Bank collaborated with the Financial Services Commission in hosting one-day conferences for financial institutions, and was an active participant in the meetings of the formal social partnership, providing updates on economic performance and policy responses.

The Bank's policy initiatives were buttressed by an active research agenda. The Bank published studies on NIS financing, foreign exchange markets, bank liquidity, economic stabilisation and the use of information technology, in its internet journal, the Economic Review. The Bank also published working papers, hosted the usual Annual Review Seminar for the academic community, and launched a quarterly newsletter in 2012 to track information of interest to the international business and financial services sector.

In addition, a significant achievement for the Bank was the publication of its first Financial Stability Report.

CHANGING THE BANK'S CULTURE

The Central Bank continued its programmes designed to improve its management capacity and operational efficiency. The guiding principle of the reform is that



At the Bank's 40th Anniversary Awards Gala Governor, Dr. DeLisle Worrell and Prime Minister, the Honourable Freundel Stuart share the stage with employees achieving the 38-year milestone: Ms. Angolyn Kirton, Mrs. Sheila Legall, Mrs. Maureen Hoyte and Mrs. Yvonne Parris.

the path to efficiency lies in full engagement of all employees.

Thus, internal processes and practices were revised with a view to fully motivating all Bank staff, and providing opportunities for everyone to achieve his or her full potential.

CELEBRATING FORTY YEARS OF EXCELLENCE

During 2012, the Bank celebrated forty years of service. We are proud of the Bank's record, and even moreso of the loyal and dedicated members of staff that continue to make the Bank a leader in the pursuit of excellence in Barbados.

The Bank also celebrates its contribution to the cultural landscape of Barbados arising

from the virtual completion of the restoration of our second building, formerly the Masonic Lodge. In addition, we made a wonderful contribution to Barbados' social development by raising the national consciousness about Alzheimer's disease through our one-cent drive.

2013 PRIORITIES

The Bank will persist with ongoing strategies designed to continually upgrade our knowledge, skills and practices, in pursuit of our goal of making the Bank a centre of excellence. In this regard, we will continue with leadership development and employee empowerment programmes to modernise our management and strengthen employee engagement. Within this context, we will be working towards the formation of a retirees'

association to enhance the potential of retirees to address their own unique needs and make contributions to the livelihood of others.

The Bank recorded a loss of \$2.7m during the year, mainly as a result of depressed income from the continued low interest rates on its international investments. The Bank is committed to reviewing options to improve revenue and contain expenditure.

Financial rules, security and disaster risk mitigation procedures of the Bank are already under review, and these will be modernised and strengthened, where appropriate. We will also review our monetary and banking policies with a view to enhancing our collaboration and interface with local financial institutions.

BOARD OF
DIRECTORS



R. DeLisle Worrell
G.C.M., Ph.D. (Chairman)



Mr. Grantley W. Smith
B.C.H., B.A. (Hons.), D.P.A.



Mr. Cecil McCarthy
LL. B., L.E.C., Q.C.



Ms. Onika Stewart
LL. B., LL. M., L.E.C.



Justin Robinson
Ph.D.



Mr. Ashley Toppin
J.P., F.C.C.A.



Mr. Harold Hoyte
G.C.M.



Mr. Elson Gaskin
LL.B., L.E.C.
Bank Secretary

MANAGEMENT COMMITTEE



R. DeLisle Worrell
G.C.M., Ph.D.
Governor



Mr. Harold E. Codrington
M.A. (Econ.)
Deputy Governor



Mr. Cleviston L. Haynes
M.A. (Econ.)
Deputy Governor



Mrs. Marlene E. Bayne
M.B.A.
Director, Bank
Supervision



Mr. David A. Boyce
M.B.A., A.F.A.
Director,
Foreign Exchange and
Export Credits, Ag.



Mr. Charles Briggs
M.B.A.
Director, Facilities
Management



Mr. Michael D. Carrington
M.B.A., F.C.C.A.
Financial Controller



Mrs. Michelle Doyle-Lowe
M. Phil., CFA.
Adviser to Governor
(Director, Research and
Economic Analysis)



Mr. Elson Gaskin
LL.B., L.E.C.
Bank Secretary



Ms. Janice D. Marshall
M.B.A.
Director, Management
Information Systems



Mrs. Janis O. Marville
M.Sc., FCIPD
Director, Human
Resources



Mr. Steve A. Vaughn
F.C.C.A., C.I.A.
Director, Internal Audit



Ms. Julia A. Weekes
CFA.
Director, Banking,
Currency and Investments



Mr. Peter H. Whitehall
M.P.A.
Director, Foreign
Exchange and Export
Credits
(Adviser to Governor)



Ms. Celeste J. Wood
M.Sc., M.B.A.
Adviser to Governor

***Note: Kevin C. Greenidge, Ph.D.**
Director, Research and Economic Analysis (on leave)

OTHER SENIOR OFFICERS

Mr. Anton D. Belgrave, M.A. (Econ)
Deputy Director, Research and
Economic Analysis

Ms. Debbie Briggs, B.Sc., A.C.C.A.
Deputy Director, Banking,
Currency & Investments

Mr. Ian Collymore, M.Sc.
Deputy Director, Foreign Exchange
and Export Credits, Ag.

Ms. Sadie P.O. Dixon, LL.M, L.E.C.
Legal Counsel

Mr. Darrin Downes, LL.B., M.A.
Chief Research Economist,
Research and Economic Analysis

Ms. Octavia O. Gibson, J.P., M.Sc.
Deputy Director, Banking, Currency
& Investments

Mrs. Cheryl A. Greenidge, M.B.A.
Deputy Director, Bank Supervision

Mr. Hartley O. Jordan, M.B.A.
Deputy Director, Facilities
Management

Ms. Angolyn R. Kirton, FCA, C.G.A.
Deputy Financial Controller

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. Pamela Arthur, M.Sc.
Assistant Director,
Governor's Office

Ms. Wilma Belgrave, B.Sc., A.C.I.S.
Assistant Director, Bank
Supervision

Ms. Novaline Brewster, J.P., M.Sc.
Public Affairs Officer,
Governor's Office

**Mrs. Josephine Haywood, B.Sc.,
C.G.A., CISA**
Assistant Director, Management
Information Systems

Ms. Tamara Hurley, M.B.A.
Risk Assessment Analyst, Bank
Supervision

Ms. Angela Skeete, M.A.
Assistant Director, Research and
Economic Analysis

CORPORATE GOVERNANCE

BOARD MATTERS

The Role of the Board

The Board of Directors of the Bank, under section 10 of the *Central Bank of Barbados Act, Cap. 323C of the Laws of Barbados* ("the Act"), has 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 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 its responsibility to the Governor and senior officers of the Bank, who are tasked with the daily responsibility of executing the policies laid down 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.

The two Deputy Governors of the Bank also attend 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 the members of the Board are Dr. DeLisle Worrell, (Chairman), Mr. Harold Hoyte, Mr. Cecil McCarthy, Dr. Justin Robinson, Mr. Grantley W. Smith, Ms. Onika Stewart, and Mr. Ashley

Toppin. Mr. Elson Gaskin is the Bank Secretary.

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 function of the Bank and reviews the draft audited financial statements in conjunction with the external auditors, prior to approval of the latter by the Board.

Apart from the Audit Committee, a member of the Board also sits on the Committee of Management of the Staff Pension Fund.

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 10 times in each year: not more than 2 months must elapse between one meeting of the Board and the next meeting. Ordinarily, the Board meets 11 times annually.

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.

MANAGEMENT COMMITTEES

The Bank's Management Committee is responsible for interpreting and executing the Bank's policies. In addition, a number of standing committees have been established over time to discuss critical areas such as: Strategic Plan; Budget; Investment; Tenders; Pensions; Business Continuity; Occupational Health and Safety; and Information Security Governance.

The Bank has a long standing health and safety programme, coordinated by an Occupational Health and Safety Committee. There are Safety Officers for each department, and regular fire drills and simulations are conducted. The Bank will continue to enhance the programme, in line with guidelines set forth in the new Safety and Health at Work (SHaW) Act.

INTERNAL AUDIT AND RISK MANAGEMENT

Internal Audit

During 2012, the Internal Audit Department performed engagements in varying departments in the Bank to assess control processes, several of which were in progress at the end of the year. Reports for completed engagements were communicated to senior management and the Audit Committee of the Board. Additionally, a review of audit management software systems was initiated to facilitate implementation of a fully automated audit management system.



The Wickham Lewis Boardwalk runs east-west along the Bridgetown waterfront .

2013 INTERNAL AUDIT PRIORITIES

- Implementing new audit management software system;
- Continuing to improve work efficiency and quality;
- Promoting increased awareness and engendering commitment to risk management throughout the Bank.

Business Continuity

The Bank continued to focus its attention on Business Continuity Management, considered an essential aspect of its overall Operational Risk Management Plan. During 2012, critical procedures and systems to enhance the Bank's redundancy capability were reviewed. Improvements included the replacement of servers and upgrades of IT applications and infrastructure at the Bank's Hotsite. In addition, the replication of

information to ensure instantaneous access at the Hotsite was expanded. Improvement of the redundancy capability of critical systems at the Tom Adams Financial Centre continued along with simulations to test systems and procedures both for Emergency Response and Critical Business processes. Safety Videos were also created and disseminated to staff over the Intranet to improve staff awareness of the Bank's Emergency Procedures.

Information Security

The Bank continued to focus on its information security programme, under the guidance of the Information Security Governance Committee (ISGC). The ISGC is responsible for determining the risk profile of the organization, and advising the management on the level of security necessary to protect information resources. Information security requires a delicate balance between protection, usability and cost.

The Bank is in the process of upgrading its hardware and software infrastructure. A document outlining teleworking guidelines was prepared and is under review by the ISGC. There are also upgrades for remote access to the corporate network and, in addition, greater use is being made of virtualised platforms.

2013 INFORMATION SECURITY PRIORITIES

- Continuing the user awareness programme;
- Protecting information assets, commensurate with the value placed on them by management;
- Improving IT security, including an assessment of our current security profile, implementation of a secure wireless solution and launch of a data management exercise;
- Enhancing IT governance and risk management, ensuring a high level of redundancy in our mission critical applications.

2013 BUSINESS CONTINUITY PRIORITIES

- Further enhancement of the Bank's resilience and redundancy capabilities;
- Reviewing and incorporating applicable best practices being used by other Central Banks;
- Improving staff awareness and training in Business Continuity Planning;
- Improving relationships with external institutions to strengthen coordination and planning against country-wide disruption in the financial system.

ECONOMIC REVIEW

At the end of December 2012, Barbados' foreign exchange reserves stood at \$1,464.3 million, representing an import reserve cover of 19.5 weeks.

OVERVIEW

Real economic activity was flat, primarily because output and foreign exchange from tourism contracted, occasioned by a 5.5 percent decline in long-stay arrivals. Total retained imports declined, resulting in a smaller gap between import

payments and foreign earnings than for 2011. Foreign exchange inflows on the capital account benefitted from the receipt of \$167 million from the sale of Barbadian shares in the former Barbados National Bank, now Republic Bank (Barbados) Limited.

FOREIGN EXCHANGE FLOWS BY CATEGORY 2010 - 2012

	2010	2011	2012
	BDS \$M	BDS \$M	BDS \$M
Foreign Exchange Outflows	5,924	6,420	5,757
Financed by:			
Travel Receipts	2,067	1,926	1,841
Other Services	1,179	562	622
Total Exports	859	950	1,130
Income	472	279	276
Transfers	222	298	297
Capital Inflows (Including Unidentified)	1,319	1,253	910
Foreign Reserves*	53	12	-41

*- indicates an increase in international reserves

Source: Barbados Statistical Service and Central Bank of Barbados

International Reserves and Import Cover

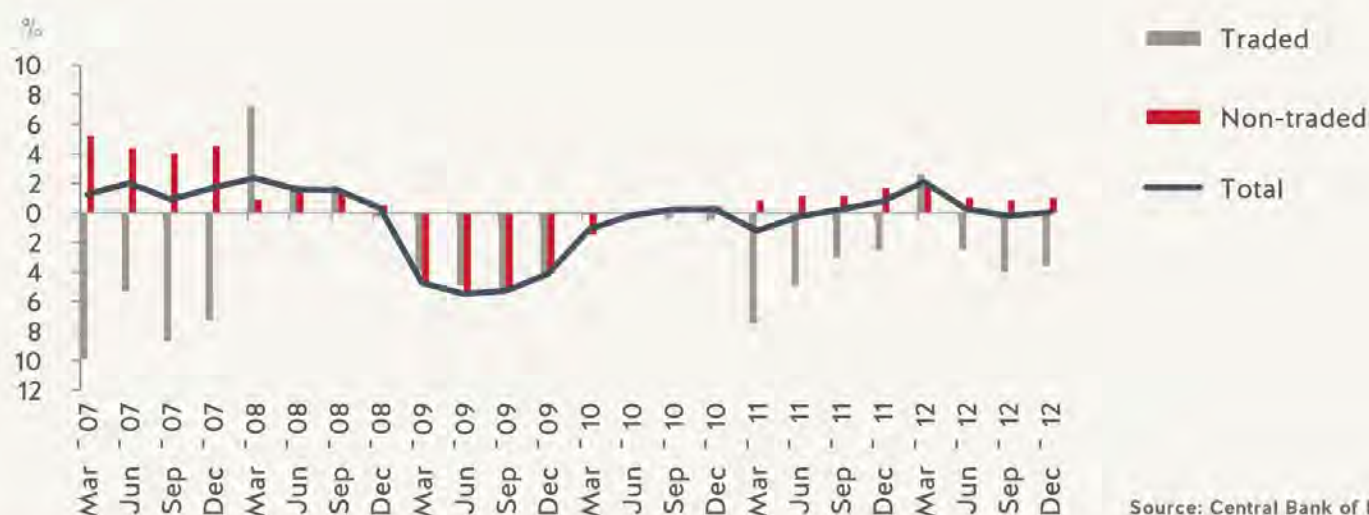


During the April-to-December period of 2012, the fiscal deficit was estimated at 6.4 percent of GDP, compared to 5.2 percent of GDP for the comparable period of 2011. Stagnant economic activity depressed revenue and was one of the main constraints to Government achieving the targets of its Medium Term Fiscal Strategy (MTFS), which sets out policies to achieve a balanced budget by 2016/2017.

Real output in the non-traded sectors grew by only one percent because of fiscal spending limits and the reduction in the traded sectors. Output contracted in manufacturing and non-sugar agriculture, while sugar production increased. The international business and financial services sector held steady, with the total number of companies increasing by about 1.2 percent as at December 2012, when compared to the same period in 2011.

The decline in long-stay tourist arrivals and cruise ship passenger arrivals translated into a 3.7 percent decline in the real tourism output, despite an increase of the average length of stay of visitors. Long-stay tourist arrivals, already burdened by the sluggish global recovery, declined by 5.5 percent, further affected by the loss of airlift capacity from the United Kingdom (UK) and the United States (US). Arrivals from the US declined by

Real GDP



TOURIST ARRIVALS BY MAJOR SOURCE MARKETS

JANUARY - DECEMBER

MAJOR MARKETS	2011	2012 (p)	Actual CHG	% CHG
U.S.A	142,414	130,762	-11,652	-8.2
Canada	71,953	72,020	67	0.1
U.K	189,150	173,519	-15,631	-8.3
Germany	8,401	9,182	781	9.3
Other Europe	27,458	27,937	479	1.7
Trinidad & Tobago	36,825	38,005	1,180	3.2
Other CARICOM	64,149	58,482	-5,667	-8.8
Brazil	4,841	4,603	-238	-4.9
Other Countries	22,533	21,793	-740	-3.3
TOTAL ARRIVALS	567,724	536,303	-31,421	-5.5
JANUARY - DECEMBER				
TOTAL CRUISE PASSENGERS	609,844	517,436	-92,408	-15.2
TOTAL CRUISE CALLS	391	358	-33	-8.4

Source: Barbados Statistical Service & Immigration Department



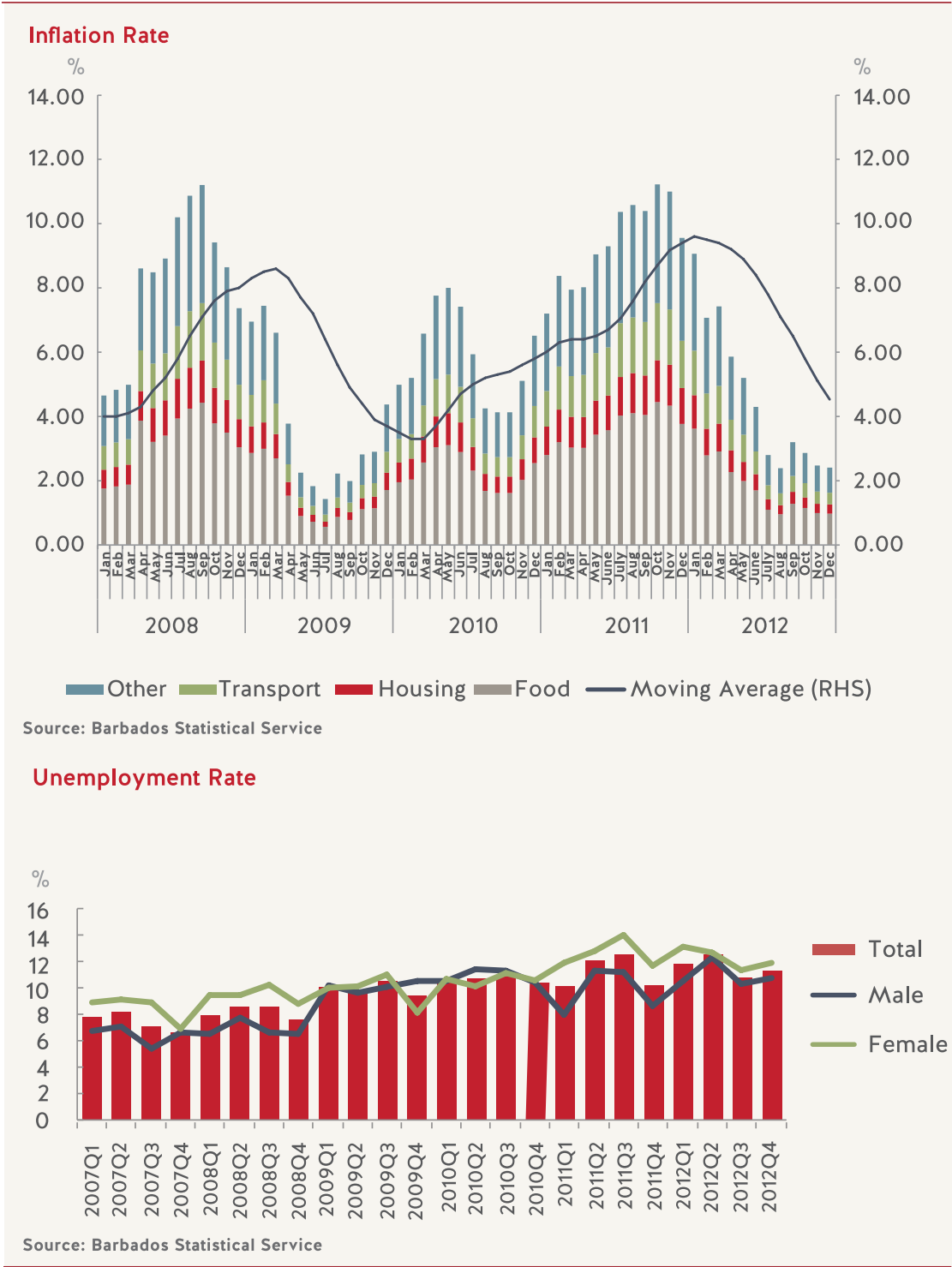
The Central Bank Building (upper right corner) overlooks modern Bridgetown, which still reflects its historic medieval serpentine street layout.

8.2 percent and visitors from the UK fell by 8.3 percent. There was also a 0.1 percent increase in Canadian visitors. Additionally, growth was recorded in the numbers of tourists arriving from other European countries as well as from Trinidad and Tobago.

Cruise passenger arrivals contracted by 15.2 percent during 2012. This decline stemmed largely from the shift of some cruise ships to other destinations and a renewed focus on the Mediterranean region by some of the major cruise companies. The downturn in cruise activity was evident particularly during the summer period (April to August), when cruise ship calls fell by 29.5 percent.

PRICES AND UNEMPLOYMENT

At the end of December 2012, the twelve-month moving average rate of inflation stood at 4.5 percent, compared to the 9.4 percent recorded at the end of 2011. Retail prices have exhibited a general downward trend since the end of the second quarter, mainly as a result of slower price increases in the sub-categories of housing (0.56 percentage points), fuel and light (0.39 percentage points) and household operations and supplies (0.41 percentage points).



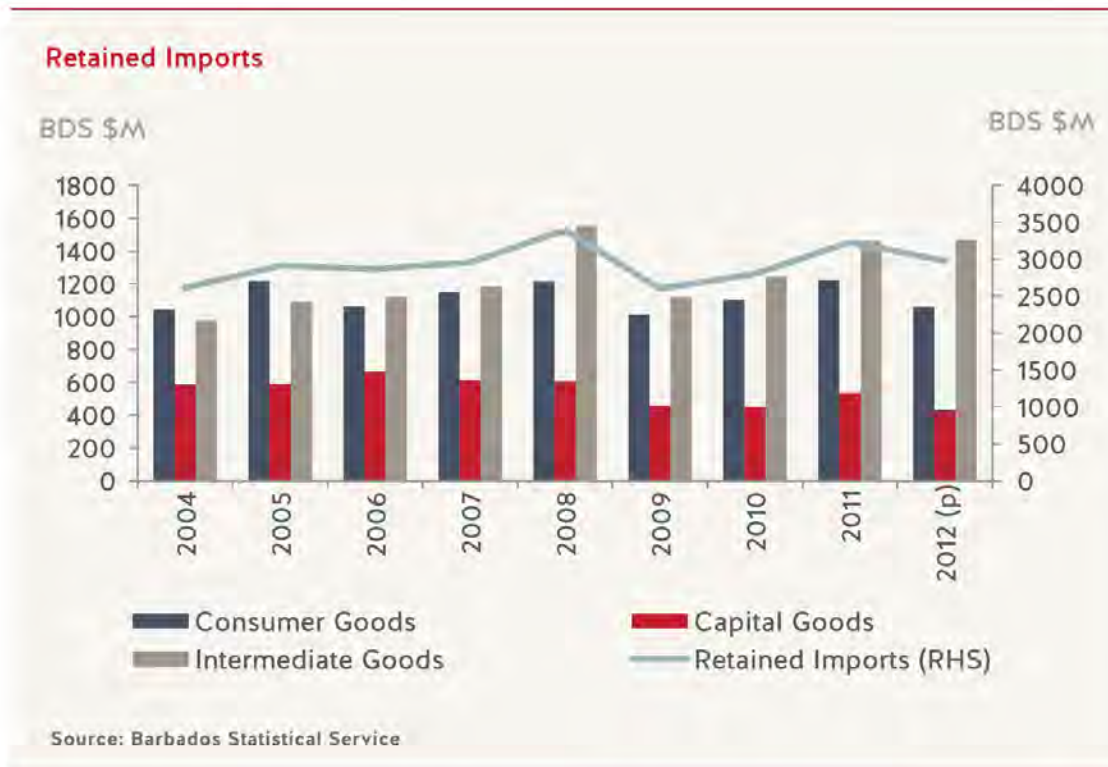
The average unemployment rate for 2012 rose by 0.4 percentage points to 11.6 percent compared to the average rate for 2011.

BALANCE OF PAYMENTS

The external current account deficit narrowed to 4.7 percent of GDP, compared to a deficit of 11.6 percent for 2011. This out-turn was about 3.6 percentage points lower than the average deficit over the previous five years.

During 2012, total retained imports fell by \$247.2 million. Imports of consumer goods fell by \$158.9 million, mainly as a result of reductions in imports of food and beverages, clothing and tobacco products. In addition, machinery imports declined by \$93.5 million. The intermediate goods category grew by \$10.3 million, spurred by the imported price of fuel which was 3.5 percent higher than in 2011. Intermediate goods imports have risen from 40 percent to nearly half of total retained imports in the review year as a result of elevated oil prices since 2007.

Foreign earnings from tourism declined by 4.4 percent in 2012, continuing a four-year slide in the ratio of travel credits to GDP from 27.5 percent in 2008 to 21.2 percent in 2012. Exports of visible goods grew by 4.3 percent, primarily



driven by increases in medical instruments (\$18.5 million) and rum (\$11.5 million). However, chemicals exports were \$12.4 million lower, after leading the expansion in exports over the past two years.

The capital and financial account netted an estimated \$680.4 million, due largely to proceeds from the divestment of shares in the former Barbados National Bank (\$167 million). Real estate flows were \$290 million, compared to \$347 million last year. These flows were estimated at 3.3 percent of GDP, compared to an average of 6.8 percent of GDP in the pre-crisis period of 2006 to 2008.

THE PUBLIC SECTOR

The fiscal deficit for the April-December period is estimated at 6.4 percent of GDP, compared with 5.2 percent in the same period of 2011. Tax revenue fell by 2.1 percent, following an expansion of 8.4 percent in the similar period of 2011. Revenue from personal taxes fell by 10.4 percent and VAT receipts declined by 2.5 percent. On the other hand, property taxes were higher by 8.5 percent following the early distribution and payment of land tax bills.

Direct Tax Revenue by Source (April to December)



Indirect Tax Revenue by Source (April to December)



Source: Accountant General, Ministry of Finance and Economic Affairs and Central Bank of Barbados

Current expenditure increased by approximately 2.1 percent, mainly as a result of a 4.0 percent expansion in interest payments and a 2.0 percent rise in subsidies to government entities. In contrast, spending on capital outlays fell by an estimated 4.0 percent.

For the second year, the deficit was mainly financed domestically. A total of \$558 million was raised in the domestic market, compared to \$586 million in 2011. The National Insurance Scheme (NIS), commercial banks and the domestic non-bank private sector continued to be the key financiers of the fiscal deficit. In

2012, commercial banks provided \$335 million in financing, which stands at more than three times the amount for 2011. Financing from private non-bank entities and the NIS increased by 35 percent and 48 percent, respectively.

External financing of the deficit primarily occurred during the October-December quarter. This consisted of \$90 million from the divestment of the former Barbados National Bank shares. Additionally, there were inflows totalling \$22 million for project loans from multilateral agencies, which brought total project fund inflows to \$30 million.

Proceeds from the sale of the shares in Republic Bank (Barbados) Limited supported domestic financing of the fiscal deficit. There was no additional foreign market borrowing and the external debt, expressed as a percentage of GDP, declined marginally to 31 percent, while external debt service amounted to 6.2 percent of the earnings on the external current account. The ratio of government debt to GDP stood at 83 percent, exclusive of the holdings of the National Insurance Scheme (NIS). The overall debt of the public sector, after accounting for the financial assets of government and statutory bodies, was 54 percent.

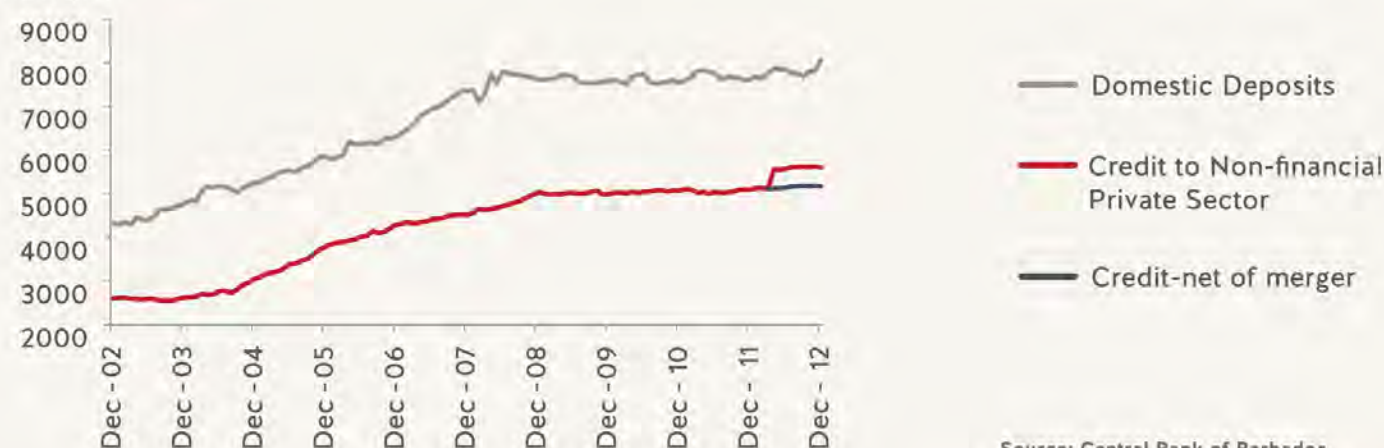
GOVERNMENT FINANCING (BDS \$MILLIONS)

	2011					2012				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Total Financing	278.2	95.4	107.8	138.4	619.8	60.5	130.7	146.3	201.0	538.5
Domestic Financing	298.8	131.6	135.1	20.7	586.2	96.0	164.3	173.2	124.2	557.6
Central Bank	59.1	42.9	48.9	-114.4	36.5	-145.9	35.3	109.9	79.7	79.0
Commercial Banks	-74.5	168.8	-16.4	13.6	91.5	183.4	66	92.7	-6.6	335.5
National Insurance Scheme	113.7	9.1	29.9	14.4	167.1	59.5	80.7	63.7	43.6	247.5
Private Non-Bank	70.8	39.2	28.8	99.1	237.9	12.2	128.2	69.8	110.9	321.1
Other	129.7	-128.5	43.9	8.1	53.2	-13.3	-145.8	-162.9	-103.4	-425.4
Foreign Financing (net)	-20.6	-36.2	-27.3	117.7	33.6	-35.5	-33.6	-26.9	76.7	-19.2
Capital Markets	0.0	0.0	0.0	0.0	0	0.0	0.0	0.0	0.0	0.0
Project Funds	3.9	1.4	6.2	12.1	23.6	1.1	2.4	4.0	22.4	29.9
Policy Loans	0.0	0.0	0.0	140.0	140	0.0	0.0	0.0	0.0	0.0
Amortisation	-24.5	-37.6	-33.5	-34.4	-130	-36.6	-36.0	-30.8	-35.6	-138.9
Divestment	0.0	0.0	0.0	0.0	0	0.0	0.0	0.0	90	90.0

Source: Accountant General and the Central Bank of Barbados

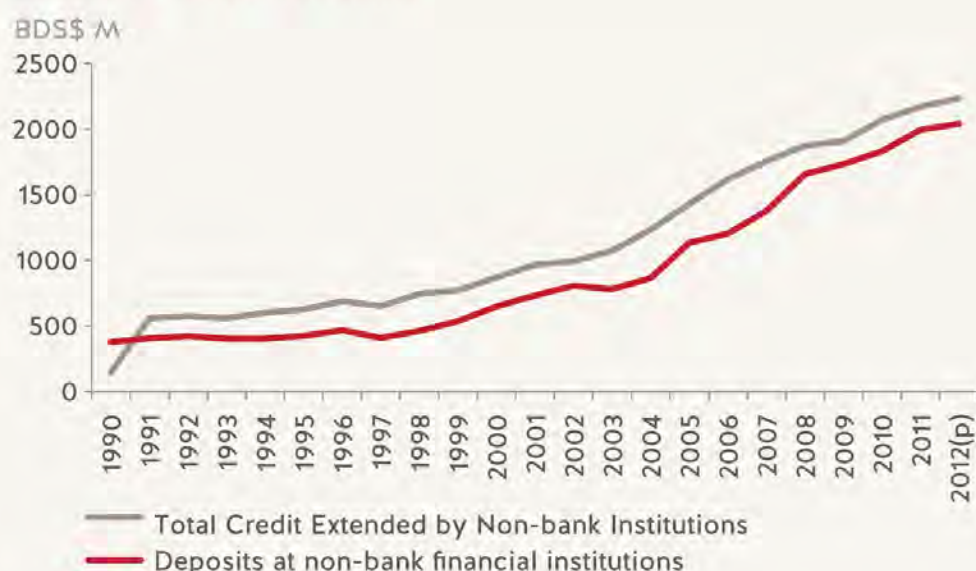
Commercial Banks

BDS \$M



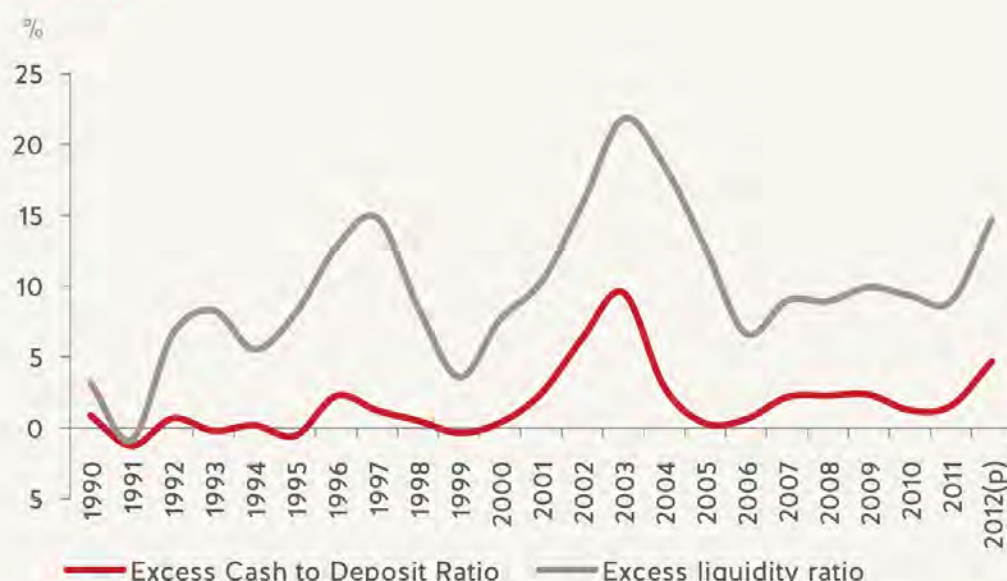
Source: Central Bank of Barbados

Non-Bank Financial Institutions



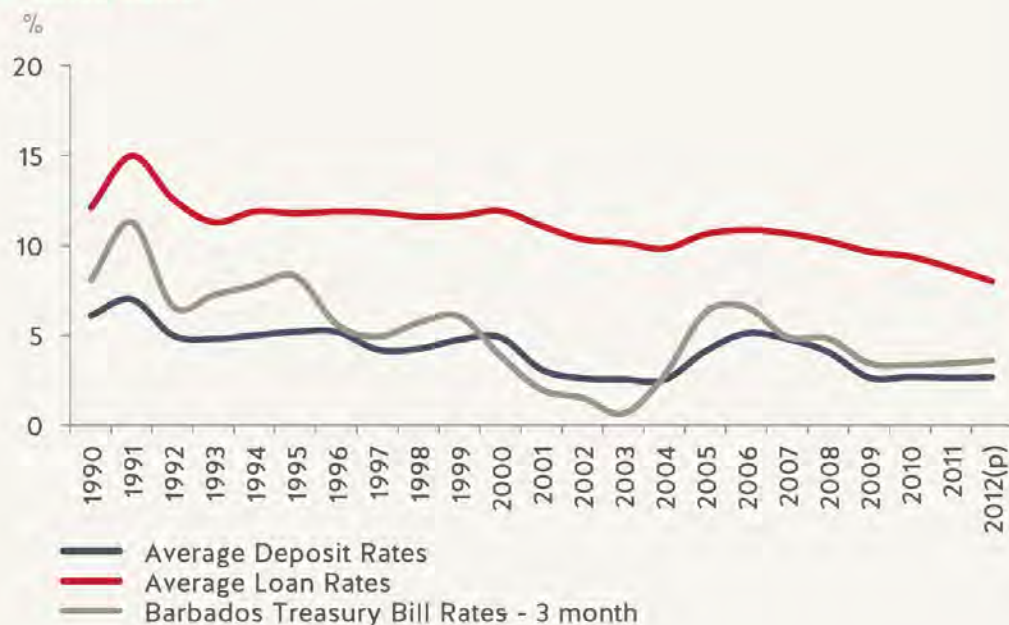
Source: Central Bank of Barbados

Liquidity



Source: Central Bank of Barbados

Interest Rates



Source: Central Bank of Barbados

FINANCIAL INDICATORS

Commercial Banks

After recording modest growth during the first three quarters of the year, domestic deposits at commercial banks rebounded during the months of October and November, bringing the year-to-date deposit growth to 5.4 percent (\$409.1 million). The significant rise in the fourth quarter reflected increased deposit holdings by private financial institutions and the National Insurance Scheme.

The loan portfolio of commercial banks was largely inflated by the merger of one commercial bank and a trust company. Deducting the impact of the merger, credit to the non-financial private sector grew by less than 2 percent.

Non-Bank Financial Institutions

Deposits at non-bank financial institutions grew by 2.3 percent (or \$45.3 million). Trust companies amassed an additional \$41.9 million in deposits, while deposits held with finance companies increased by \$13.6 million. Reduced tax incentives appeared to have lowered saving in credit unions. Deposits at credit unions fell by \$10.2 million, a complete turnaround from the average deposit accumulation of \$93.3 million recorded over the last three years. Meanwhile, lending by non-bank financial institutions remained virtually unchanged in 2012.

With deposit growth outstripping the rise in credit, liquidity in the financial system remained high. The excess cash to deposit ratio moved from 1.6 percent in 2011 to 4.7 percent, and the holdings of excess treasury bills increased significantly (\$211.0 million). As such, the excess liquidity ratio stood in double digits (14.7 percent) at year-end for the first time since 2005. Interest rates remained stable.

OPERATIONS

1. MACROECONOMIC STABILITY

Economic Policy

Barbados' macroeconomic strategy continued to focus on conserving foreign exchange reserves and creating a framework for the resumption of growth in the foreign exchange earning sectors.

The strategy for restoring sustainable growth remained centred on efforts to facilitate the resurgence of tourism, international business, agriculture and agro-processing and the development of alternative energy, to ensure the adequacy of foreign reserves to meet the demand for imports.

The Bank kept its main policy instruments unchanged during 2012. The discount rate stood at 7 percent, the minimum deposit rate was 2.5 percent, and the cash and security reserve requirements on bank deposits were 5 percent and 10 percent for domestic and foreign deposits, respectively.

Institutional Arrangements

The Bank continued to hold discussions with various stakeholders during the year, inclusive of the monthly meetings with the Ministry of Finance and Economic Affairs to review and assess the economy.

In-depth meetings were held with financial institutions, in preparation for the final phases of the revised financial schedules. These updates seek to capture the increased complexity of financial institutions' operations and activities in order to facilitate the expanded reporting requirements of regional and international agencies.

In addition, the Bank was represented on the National Debt Advisory Committee and the Technical Debt Management Committee, both of which were established to strengthen the debt management capacity in the Ministry of Finance and Economic

Affairs. In fulfilling this mandate, the Bank completed arrangements for the electronic transfer of debt data to the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS), which is housed in the office of the Accountant General.

The Bank was also represented on a Tourism Working Group, the other members of which are the Barbados Hotel and Tourism Association, the Barbados Statistical Service, the Barbados Tourism Authority, the Ministry of Tourism and the Caribbean Tourism Organisation.

2. FINANCIAL STABILITY

Financial System

At the end of 2012, there were six commercial banks under the regulatory oversight of the Bank. The Bank was also responsible for one bank holding company, twelve Part III companies and forty-six international banks at year-end. During the year, one new international bank was licensed,

while two international banks have started the wind-up process. Three new applications for licences were pending, one under Part II of the Financial Institutions Act and two under the International Financial Services Act.

The Barbadian banking system continued to be stable during

LICENSED FINANCIAL INSTITUTIONS

Type of Institution	2007	2008	2009	2010	2011	2012
Onshore						
Commercial Banks	6	6	7	7	7	6
Bank Holding Company	1	1	1	1	1	1
Part III Companies	15	15	14	13	13	12
Total Onshore	22	22	22	21	21	19
Offshore	57	49	50	45	45	46
Total Licensed Institutions	79	71	72	66	66	64

Source: Central Bank of Barbados

2012, even amidst depressed local economic conditions and the lingering uncertainty within international financial markets. Non-performing loans edged upward during the year, but commercial banks remained adequately capitalised and profitable, with their capital adequacy ratios well above statutory requirements.

The Financial Services Commission (FSC), which oversees the regulation of non-bank financial institutions, continued to work closely with the Bank and the Barbados Deposit Insurance Corporation (BDIC) to strengthen prudential oversight of the entire financial system.

Financial Stability Report

In July 2012, the Bank published a mid-year update to its 2011 Financial Stability Report (FSR) and also prepared the 2012 report at year-end. The FSR presents an evaluation of current trends in the financial system, making use of prudential indicators and financial models to analyse institution-specific risks as well as the collective risks in the Barbadian financial system.

Banking Regulation Framework

The regulation and supervision of institutions licensed under the Financial Institutions Act and the International Financial Services Act remain critical elements of the Bank's mandate of maintaining and promoting financial stability. In an effort to improve its compliance with international standards and best practices, the Bank continued to enhance its regulatory framework. Projects to amend legislation and develop additional guidelines were well advanced, along with initiatives to enhance prudential reporting and to strengthen Consolidated Supervision.

Policy Development

The Bank maintained its efforts towards the implementation of Basel II and III, continuing implementation of Pillar 2 which emphasises the importance of a strong regulatory framework, industry risk management practices and supervisory transparency. To this end, additional guidelines were being developed with the following being shared with the industry during 2012:

- The *Consolidated Supervision Guideline* which provides direction to licensees with regard to the Bank's application of its consolidated supervision framework.
- The *Credit Risk Management Guideline* which sets out the Bank's expectations in relation to the minimum standards for sound credit risk management.
- The *Intervention Policy Guideline* which provides general guidance on the procedures that the Bank will follow when there is cause for concern at a licensee.
- The *Supervisory Framework* which details the Bank's approach to risk-based supervision of licensees.

The Bank made progress with the implementation of the Market Risk Amendment to the Basel I framework. The Bank issued a Market Risk Survey to industry, a draft Guideline on Measuring Capital Adequacy for Market Risk and supporting Market Risk Regulatory Reporting forms, and the accompanying instructions, for consultation. In addition, the Bank hosted a Market Risk Amendment Training Seminar for the industry.

Also in support of Pillar 2 and the enhancement of the regulatory framework, the Bank issued draft documentation and guidelines to the industry for comments, listed

as follows:

- Draft amendments to the Financial Institutions Act;
- Large Exposure Guideline
- Internal Capital Adequacy Assessment Process (ICAAP) Guideline; and
- Draft Revised Corporate Governance Guideline.

Similarly, the Bank continued to attend regulatory colleges and engage in quarterly conference calls with regional and international regulators. The Bank was represented on regional regulatory Working Groups to discuss matters such as regional crisis management, consolidated supervision and Basel II and III.

International Financial Services

The Bank collaborated with stakeholders in the international financial services and business sector, convening meetings with the Barbados International Business Association (BIBA) to discuss issues of mutual interest. In addition, the Bank continued to participate in the Joint Policy Working Group established by the Ministry of International Business to examine initiatives to strengthen the sector's competitiveness.

Financial Sector Assessment Programme (FSAP)

The Bank conducted a self-assessment of compliance with the Basel Core Principles for Effective Banking Supervision in preparation for an FSAP assessment in 2013. The Bank has been leading the initiatives to prepare Barbados for the assessment and has been collaborating with stakeholders such as the Financial Services Commission, the Barbados Deposit Insurance Corporation and the Ministry of Finance and Economic Affairs.

2013 FINANCIAL STABILITY PRIORITIES

- Enhancing the regulatory and supervisory framework for banking institutions;
- Furthering the work on Basel II implementation, to bring Barbados in line with emerging international practice;
- Enhancing dialogue with the domestic and international banking sectors and regulators so as to strengthen home-host relationships and consolidated supervision ;
- Contributing to national preparedness for Country assessments (e.g. FSAP, Mutual Evaluation, and OECD Global Forum Peer Reviews).

3. MONEY, CREDIT AND CAPITAL MARKETS

Trading in Foreign Currencies

During the year net sales of foreign exchange to the banking system fell marginally to \$73.2 million, compared to \$74.6 million in 2011. Purchases of foreign currency for 2012 stood at \$304.4 million (compared to \$407.8 million in 2011) of which foreign currency notes were \$96.4 million.

Liquidity Management

The high level of excess liquidity in the banking system in 2012 resulted in no borrowings by the commercial banks from the Central Bank. During the year, commercial banks sold \$52 million in Treasury Bills to the Bank and purchased \$25 million in Treasury Bills from the Bank. In 2012 the Bank was more active in the primary market with purchases of \$424.1 million in Treasury Bills compared to the previous year's total purchases of \$242.6 million. At year-end, the Bank's holdings of Treasury Bills stood at \$160.9 million compared to \$148.7 million at the end of 2011. There was no activity

related to collateralised borrowing at the Bank's discount window in 2012.

Government Bond Market

The Bank issues Government Savings Bonds, Barbados Government Treasury Notes and Debentures on behalf of Government as a means of raising funds and managing domestic liquidity. In 2012, two issues of Treasury Notes and eight issues of Debentures with a nominal value of \$750 million were offered to the public in maturities from five years to twenty years at a weighted average coupon of 7.1 percent. Rollover from securities for the year totalled \$256.3 million, resulting in the net issuance of \$493.7 million in new debt. By year-end, \$684.4 million of securities were sold, including securities issued before 2012.

One Savings Bond issue for \$10 million was offered to the public and \$9.6 million was allocated by year-end. In addition, \$3.5 million from

prior savings bond issues were also allocated during the year. A savings bond issue of nominal value \$10 million matured during the year and redemptions for the issue totalled \$7.2 million. At the end of the year the outstanding balance of savings bonds stood at \$89 million.

Housing Credit Fund

Housing Credit Fund (HCF) activity slowed during 2012. Loans outstanding declined to \$118 million with principal repayments of \$6.8 million. There were no loan disbursements for the review period. The Fund remained profitable and the key performance indicators are set out in the table on HCF operations.

Industrial Credit Fund

The Industrial Credit Fund (ICF) recorded a decrease in the value of loan approvals and the level of disbursements recorded in 2012 as compared to 2011.

Four (4) applications totalling \$3.9 million were approved, compared to

KEY INDICATORS OF HCF OPERATIONS (BDS \$MILLIONS)

INDICATORS	2008	2009	2010	2011	2012(p)
Loan Approvals	16.0	4.0	4.5	3.5	0
Loan Disbursements	11.5	7.7	4.0	8.0	0
Principal Repayments	8.2	7.0	10.3	9.5	6.8
Loans Outstanding	131.6	132.3	126.0	124.8	118.0
Net Income	3.9	3.9	3.9	3.9	4.2
Capital Inflows	0	0	0	0	0
Net Worth	145.2	149.2	153.5	158.7	163.9

six (6) applications valued at \$13.4 million in 2011. New disbursements amounted to \$8.3 million. Agro-industry accounted for most of the new approvals (\$2.3 million) with the remainder going to professional services (\$1.1 million) and renewable energy services (0.5 million). The balance of loans approved but undisbursed was \$12.2 million at year-end.

No Capital Contributions were received during the year. Net income declined during 2012, mainly related to revaluation of assets of the Barbados Investment Fund, which was later unwound. Net Income is estimated at \$1.6 million compared to \$2.4 million in 2011.

Small Business Credit & Guarantees

The number of small and medium-sized enterprises using the collateral support provided by the credit guarantee scheme increased during the year. At the end of 2012, there were twenty-five (25) guarantees outstanding with a maximum liability of \$1.3 million as compared to twenty-three (23) guarantees with a maximum liability of \$1.4 million at the end of 2011. Total lines of credit decreased from \$1.8 million to \$1.7 million during the year. During the year, no export credit insurance coverage or export finance guarantees were provided.

4. PAYMENTS SYSTEM

Real-Time Gross Settlement System

During the second quarter of 2012, the implementation of the upgrade to the Bank's Gross Settlement System was successfully completed with the upgraded system going live during the month of May 2012.

Straight-Through-Processing

The Bank introduced straight-through-processing (STP) of interest payments and redemption proceeds for holders of Government of Barbados securities. The goal of

KEY INDICATORS OF ICF OPERATIONS (BDS \$MILLIONS)

INDICATORS	2009	2010	2011	2012P
Loan Approvals	10.7	10.4	13.3	3.9
Loan Disbursements	7.5	8.3	10.4	8.3
Principal Repayments	10.9	6.2	13.4	5.2
Loans Outstanding	40.6	42.2	38.2	41.2
Net Income	2.2	2.2	2.2	1.6
Funds Transfer	0.0	6.7	0.0	0.0
Capital Inflows	5.9	0.0	0.0	0.0
Net Worth	120.0	128.9	131.2	132.8

straight-through-processing is to enable electronic payments to flow seamlessly from the paying agent through the banking infrastructure to the beneficiary with minimal human intervention. The benefits of straight-through-processing include reduced settlement risk and lower operating costs to the commercial banks and a reduction of the time taken by the bondholder to access interest and redemption payments.

5. CURRENCY MANAGEMENT

The highlights for the year included the successful launch of the One Cent Coin Drive for the first time,

and design of a new forecasting model for currency which incorporates expected economic activity, in collaboration with the Research and Economic Analysis Department. In addition, the Bank hosted eight "Know Your Money" seminars for the public including financial agencies, the commercial sector, and primary school children, and a new family of bank notes with the enhanced security was designed.

Currency in Circulation

Currency in circulation was \$670.8 million as compared to \$651.7 million at the end of 2011. Notes accounted for 91.8%, with the \$2



The Currency Department's "Know Your Money" seminars helped cashiers and other front-line staff to become more adept at identifying counterfeit notes.



Ms. Octavia Gibson, Deputy Director of Banking Currency & Investments and Ms. Pamela Brerton, President of the Barbados Alzheimer's Association, collect cents from the Charles F. Broome primary school.

and \$20 notes being those most widely circulated and the \$100 note accounting for the highest value of notes in circulation. The one cent coin was the most widely circulated and the \$1 coin registered the highest value but the lowest quantity in circulation. The Bank issued new notes with a face value of \$299 million. The \$20 note accounted for 27% of the notes issued whilst the \$50 note was the least issued, accounting for only 9%.

Counterfeit Deterrence

The counterfeit rate remained low in relation to industry standard, and the Bank remained committed to its three-pronged counterfeit deterrence strategy of security feature upgrades, public education and assistance to the Royal Barbados Police Force with law enforcement.

One Cent Coin Drive

This project started in July 2012 because of the need to redeem one cent coins for recirculation. The Bank partnered with the Rotary Clubs of Barbados and the

Barbados Alzheimer's Association to collect 5 million one cents to start a day care centre for sufferers of Alzheimer's disease. Collection bins were placed at various points around the island. The concept was widely embraced by the general public including private sector agencies. By the end of December the initial target of 5 million one cents had been doubled, and the project has continued as the public assists the Bank in "Making sense out of one cents".

2013 CURRENCY PRIORITIES

- On-going improvement to operational efficiency, currency services risk management and counterfeit deterrence;
- Issuing of a new family of bank notes with enhanced security features.

6. INFORMATION TECHNOLOGY

In 2012 the overarching strategic objective for the Bank continued to be improving operational efficiency through the use of cutting edge technology in a secure environment. To this end, information technology personnel worked with departments to implement the straight-through processing initiative, facilitate the release of a new, more user-friendly version of the Bank's Online Statistics service, and implement a new accounting system.

Conversion to a new Portfolio Management System was completed and the new system is expected to go live in early 2013. The first phase of the new Human Resources Information System is close to implementation.

A failover exercise for the Payments System, including external participants, was also completed and a new storage area network was successfully installed.

The Bank continued its efforts to accelerate the greening of IT, which includes dimensions of environmental stability and economics of energy efficiency. Some of the initiatives undertaken by the Bank related to the upgrade of the server environment, including the virtualisation of servers, the continued introduction of blade servers and the upgrade to Windows Server 2008. Greening practices included widening of the use of electronic data interchange with our external partners and the creation of more electronic linkages between our internal systems.

2013 INFORMATION TECHNOLOGY PRIORITIES

- Continuing business process improvements in new systems, particularly moving towards a new, more modern web infrastructure that allows the Bank to respond to its publics in a more user-friendly manner;
- Accelerating implementation of greening IT initiatives through further server virtualization, and continued expansion of EDI to non-bank financial institutions.



Tim Sanders, CEO of Net Minds outlines the principles of Emotional Intelligence before a capacity crowd in the Frank Collymore Hall.

7. OUR INTERNAL PARTNERS

The Bank continued its focus on developing its people through a number of initiatives, including training in emotional intelligence (E.I.) and encouraging HR practitioners to build relationships with internal partners.

One of the highlights of the year was a National Emotional Intelligence Conference, the first of its kind in Barbados. Assuming a leadership role, the Bank attracted and hosted leaders from across the country's corporate landscape as well as regional participants to what many attendees felt was "a life-changing experience".

Tim Sanders, international speaker and author, inspired the audience as he shared his wealth of experience and knowledge with the Bank's staff and guests on the topic, "Emotional Talent: The Final Leadership Frontier". He provided important insights on how the concept of emotional intelligence may successfully be applied in businesses with resounding

results and how it can help in the transformation of organisations.

Other new EI initiatives within the Bank included a Valentine's Day Appreciation, recognition of the Bank's ladies on Mother's Day, and honouring the Bank's gentlemen on Father's Day.

An Employee Satisfaction Survey was facilitated and conducted by an external marketing firm, and staff participation was particularly encouraging. The results captured the attention of management and staff alike and, notably, staff indicated a high level of satisfaction with several areas, including, inter alia:

- The Bank's new communications strategy;
- Commitment to practising E.I. principles and values;
- The ability of staff to influence the quality of work and achieve a sense of personal accomplishment;
- The Bank's employment policies;
- Feelings of safety & security;
- The Bank's physical surroundings.

Following the survey, the Bank initiated a Leadership Laboratory to strengthen leadership capacity through a series of intensive one-day sessions.

The Professional & Technical Streaming based on academic qualifications, length of years and demonstrated competencies, which was introduced in 2011, allowed for the advancement of a number of staff members. The "grandfathering process" was also introduced to embrace those employees who, through their commitment to the institution, demonstrated by years of faithful, dedicated and meritorious service, had developed the talent and proficiency to warrant consideration for promotion. The outcome of these approaches is reflected in the number of promotions indicated later in this section.

A major milestone this year was the development of the new Human Resources Management System. When fully operational, this will allow for employee self-help, giving employees the ability to manage and update their personal information.

Our Wellness Programme was also successfully launched during the year, and includes weekly visits by a nurse and dietician. The Wellness Centre has replaced our sick bay, in keeping with the Bank's commitment to promote a healthier lifestyle among its staff. Staff response to these initiatives was overwhelming.

In-house training focused on the implementation of our new Performance Management System,

which all employees attended. Other local training, conferences and seminars included **Employment Law; Dale Carnegie "Skills for Success"; International Business Update; International Reporting Standards** and the **Barbados Association of Professional Engineers Annual Conference**.

Staff Movements

Seven persons joined the Bank during the year, three persons resigned and four persons retired.

The retirees included Deborah Francis, Anthony Cadogan, Anthony Carter and Maureen Hoyte. Each of these persons has served the Bank for over 30 years and Mrs. Hoyte, at the time of her retirement, was the longest serving staff member, having served thirty-eight years and eight months.

Promotions

Forty-Seven persons were promoted during the year as follows:

- Mrs. Michelle Doyle-Lowe from Deputy Director to Adviser to the Governor;
- Miss Sadie Dixon from Legal Officer to Legal Counsel;
- Miss Judy Reynolds, Miss Yvette Cheeseman, Miss Arlene Mose, and Mrs. Anele Weekes from Administrative Assistant to Senior Administrative Assistant, and Mrs. Sue-Ann Bayley from Secretary to Administrative Assistant;
- Miss Maureen Wiltshire, Mrs. Sheila Legall and Mrs. Gloria Newsam from Accounting Officer to Senior Accounting Officer;
- Mr. Anthony Small from Assistant Accounting Officer to Accounting Officer;
- Mr. David Bowen and Mrs. Inge Lucas from Senior Exchange Control Officer to Senior Exchange Control Officer II; Miss Hazel Weir and Mrs. Nicole Alleyne from Exchange Control Officer to Senior Exchange Control Officer I;
- Mrs. Joycelyn Holdipp from Credit Officer to Senior Credit Officer, and Miss Victoria Douglas from Clerical Officer to Credit Officer;
- Mr. Neville Pollard from Senior Administrative Officer I to Senior Administrative Officer II
- Mr. Denis Graham from Records & Information Administrator to Senior Records & Information Administrator;
- Ms. Laurie Blackman from Librarian to Senior Librarian;
- Miss Natalia Morgan and Miss Olivia Husbands from Clerical Officer to Statistical Officer;
- Mrs. Hyacinth Moore and Miss Juanita Simmons from Senior Auditor to Senior Auditor II;
- Miss R. Deveda Deane from Assistant Analyst/Programmer to Analyst/Programmer;
- Mrs. K. Linel Franklin, Mr. Keith Jones and Mrs. Terry Gittens-Jordan from Senior Banking Officer to Senior Operations Officer;
- Miss Pauline Richards from Banking Officer to Senior Banking Officer;
- Mrs. Clovene Roach from Currency Officer to Senior Currency Officer;
- Mrs. Jennifer Berrie-Marshall from Assistant Banking Officer to Banking Officer;
- Miss Phelia Kellman, Miss Toni Sandiford, Mrs. Sandy Moore and Mrs. Remi Holder from Clerical Officer to Banking Officer;
- Miss Michele Johnson from Bank Examiner to Senior Examiner;
- Ms. Karen Bostic, and Ms. Shari Lorde from Examiner to Bank Examiner and Miss Lisa Brathwaite and Mr. Jason Lynch from Clerical Officer to Examiner;
- Mr. Wendell Cumberbatch from Senior Security Officer to Deputy Chief Security Officer, and Mr. Othneil Mason from Security Officer to Senior Security Officer;
- Mrs. Paulette Gibbons from Administrative Officer to Senior Administrative Officer;
- Mr. Ronald Grant from Technical Services Officer to Senior Technical Services Officer;
- Mr. Dwayne Arthur and Mr. Noel Reece from Technician I to Technician II;
- Mr. Edwin McClean from Clerical Officer to Logistics Coordinator.

Academic Achievements

During the year 2012, Miss Tracy Maynard was awarded the Master of Science in Financial & Business Economics by the University of the West Indies (UWI), Cave Hill Campus; Miss Tiffany Grosvenor was awarded the Master of Science in Economics and Econometrics by the University of Manchester, while Mrs. Monica Bowen and Mrs. Kimberley McDonald graduated from the University of Surrey with Masters of Science degrees in Human Resource Management.

Miss Alicia Miller and Mr. Ronnie Cummins were awarded Bachelor of Science and Bachelor of Arts degrees in Management Studies and Psychology, respectively.

2013 INTERNAL PARTNER PRIORITIES

- Launching the Bank's Talent Management Programme;
- Continuing to build the leadership capacity within the Bank.

8. DOMESTIC OUTREACH PROGRAMMES

A public education campaign explaining how the country has been maintaining economic policy independence, was the main feature of the Bank's communications strategies in 2012. This outreach underscored the importance of accumulating high levels of foreign exchange in a small open economy with a fixed exchange rate. The campaign was buttressed by several other educational and informational activities, including meetings with interest groups, news conferences, publications, speaking engagements by senior management, and the hosting of seminars, workshops and conferences. During the year, the Bank also celebrated its 40th Anniversary, with a series of activities for staff and the public.

Engaging Various Publics

The Governor embarked on a programme of face-to-face and television presentations to various stakeholders, to explain the significance of foreign exchange in the Barbados economy. In support of this interaction between the Governor and our stakeholders, a 13-part television series titled "Foreign Exchange: the Lifeblood of Our Economy" commenced on CBC TV 8 in mid-November. Papers and presentations addressing the subject matter are available on the Bank's website.

To help constituents understand how the economy works, and digest the Bank's various policy initiatives, the Governor and senior management held a series of meetings with key stakeholders. These engagements included: Social Partnership, Joint Economic Policy, National Debt Advisory Committee, Technical Debt Management Committee, and the BHTA Quarterly Briefing. The sessions provided useful feedback on how persons and companies are coping in the challenging economic times.

Lectures

The Bank hosted two world-renowned lecturers in 2012. The first was Paul A. Volcker, a former Chairman of the US Federal Reserve between 1979 and 1987, and proponent of the controversial "Volcker Rule". Volcker delivered a public lecture to a huge audience titled "Reflections", in which he assessed the impact of the global economic and financial crisis, and evaluated Barbados' economic performance in the context of the recession.

The other speaker was Cheng Siwei, Former Vice Chairman of the Standing Committee of the National People's Congress in China and President of the China Latin America and the Caribbean Friendship Association. He addressed Barbadian businesspeople on efforts



Mr. Paul Volcker, former Chairman of the U.S. Federal Reserve Board, delivered a stimulating public lecture.

to rebalance the Chinese economy at a luncheon hosted by the Bank and the Government of Barbados.

Seminars and Conferences

The Bank continued its quarterly news conferences on the state of the economy during the year, which were streamed live on the Bank's website.

In March 2012, the Bank undertook to deepen its dialogue with stakeholders in the International Business and Financial Services sector. The presentations and panel discussions touched on Barbados' competitiveness in the sector, the Foreign Account Tax Compliance Act (FATCA), the local skill set and the IMF/World Bank Financial Sector Assessment Programme (FSAP). Some 100 persons were in attendance, a larger audience than was previously seen, which validated the Bank's strategy to engage more Barbadian professionals in the dialogue.

In October, the Bank worked closely with the Barbados Bankers' Association and Financial Services Commission to host its second major stakeholder meeting for industry leaders and institutions operating in the domestic financial sector.

The 32nd Central Bank of Barbados Annual Review Seminar was held at the Hilton Barbados under the theme: "Stability, Innovation and Competitiveness of Small States in the Global Economy".



Governor, Dr. DeLisle Worrell greets visiting Chinese Economist Mr. Cheng Siwei during a luncheon hosted by the Bank and the Government of Barbados.

The Bank, the Inter-American Development Bank (IDB) and the World Bank jointly organized the VIII Workshop of the Latin American Financial Network (LFN).

The Bank also hosted a one-day Seminar for young attorneys-at-law to equip them with some valuable tools for work within the international business sector. This initiative, which the Bank intends to replicate, was enthusiastically received by the attorneys and attracted presenters from Barbados and Canada who are skilled practitioners in international tax law.

Sir Winston Scott Memorial Lecture

The speaker at the 37th Sir Winston Scott Memorial Lecture was William A. Darity, Professor of Public Policy Studies and Professor of African and African American Studies and Economics at Duke University in the United States of America. He spoke on “**High Unemployment: Local and Global**” and posited that a government guaranteed employment programme was key to tackling the employment crisis.

Schools’ Outreach

The annual secondary schools lecture series, which caters to fourth, fifth and sixth form students,

continued to provide invaluable learning opportunities for many students across the country. More than 300 CXC and A-Level students participated in the lectures, which were again presented by the Bank’s economists and other local experts.

University in the Community

In collaboration with the Open Campus, UWI, the Bank continued its monthly lunchtime lectures, hosting panel discussions and presentations on topics that included; economics, education, entrepreneurship, productivity and disaster management. Expert speakers delivered excellent presentations to large and supportive audiences.

Publications

The Bank maintained a vigorous research agenda in 2012, with the publication of several documents.

The Bank, in collaboration with the Financial Services Commission, issued the country’s first-ever Financial Stability Report (FSR).

The Bank published two Economic Reviews (ERs) featuring research in areas of immense public interest, including: **Tourism Expenditure, Consumption in Barbados, Estimating the Average Intended Length of Stay of Tourist Arrivals to Barbados, Financial and Public Sector Issues, NIS Financing, Stabilisation Policy with a Fixed**



Mr. Harold Codrington, Deputy Governor, and Ms. Novaline Brewster, Public Affairs Officer, congratulate Mr. Justin Carter, recipient of the 2012 Central Bank of Barbados Scholarship.



The Bank sponsored the participation of Barbadian student Reaiah Harris (back row, 3rd from left) in the innovative SPISE Programme which brought together promising science and engineering students from across the region.

but Market-Determined Exchange Rate, Liquidity Effects on Bank Stability in Barbados and the Forecasting of Barbados' Nominal Gross Domestic Product.

The Bank introduced a new IBFS Newsletter to heighten awareness of major industry developments locally, regionally and internationally. Four newsletters were issued during the year, and one of the topics examined extensively was the Foreign Account Tax Compliance Act (FATCA). Several articles assessed the impact of this Act on the local international business sector, offered updates on Government's response thus far, and also outlined the ongoing strategy to ensure compliance. Under FATCA, U.S. taxpayers with specified foreign financial assets exceeding certain thresholds must report those assets to the IRS, attaching such reports to their federal income tax return.

Philanthropy

The Bank again supported numerous community and non-governmental activities. Several charitable organisations received monetary support, as well as discounts and/or waivers of fees to use the Frank Collymore Hall and the Grande Salle to promote their causes.

Scholarships

Mr. Justin Carter was the recipient of the Bank's Scholarship for outstanding performance in Economics and Mathematics at the University of the West Indies, Cave Hill Campus. The Bank has been awarding this scholarship to Barbadian students at the Cave Hill Campus, since 1997. In addition to a monetary award, successful candidates benefit from a summer internship at the Bank.

The Bank sponsored Reaiah Harris, a Barbados Community College student, in the inaugural Student Programme for Innovation, Science and Engineering (SPISE) Programme at the University of the



Now in its fifteenth year, the Pan in the Plaza summer camp attracted participants from some 38 primary and secondary schools who were given instruction at the junior, intermediate and senior levels.

West Indies, Cave Hill Campus. SPISE is an intensive immersion project for promising secondary school students between ages 15 and 17, who wish to pursue careers in science or engineering. It mirrors the respected MITES programme at Massachusetts Institute of Technology (MIT) and includes courses in calculus, physics and biochemistry taught by distinguished academic and industry scientists and engineers from the region and the United States. An initiative of the Caribbean Science Foundation (CSF), the programme was conducted by noted Barbadian inventor and professor of electrical engineering at MIT, Professor Cardinal Warde.

Pan In The Plaza Camp and Extravaganza

"Links of Steel" was the theme of the Pan in the Plaza Camp and Youth Pan Extravaganza in 2012. The Bank-sponsored event is intended to enhance the musical skills of the young steel pannists. The National Cultural Foundation, co-sponsor of this training camp, upgraded its support by offering **The Pan in the Plaza** Ensemble the opportunity to play at the Crop Over Pan Fusion

concert. The young pannists, comprising senior campers, tutors and counsellors, wowed the audience and received rave reviews in the local media.

Since the commencement of the programme in 2002, several participants have gone on to enroll or graduate from the Barbados Community College, another is pursuing a music degree at the prestigious Berklee College of Music in Boston, Massachusetts, USA, and yet another recently performed in the Far East.

Crop Over Visual Arts Festival

Now in its nineteenth year of sponsorship of the Crop Over Visual Arts Exhibition, the Bank has committed to a three-year contract to ensure the continued support of the visual arts community. This year also saw some innovations to the exhibition, including, increases in prize monies in some categories, the introduction of the **People's Choice Award**, special activities for diplomats and lovers of the arts, as well as initiatives to boost sales via limited reproduction of artwork in various formats, i.e. mugs and posters.

Frank Collymore Literary Endowment (FCLE) Awards

Poet/Liberal Activist, British-Born-Bajan, Dorothea Smartt, was the featured speaker at the 15th Annual FCLE Awards where she spoke on the topic **“Poetry is Not a Luxury”**. Ms. Smartt also conducted a Master class for 14 local poets on the topic **“Poetry: The Uses of the Erotic”**.

The FCLE Committee awarded one second prize and two joint third prizes in the poetry and prose categories, as follows:

2nd Prize:

Carlyon Blackman,
“Ars Poetica” (Poetry),
\$7,000

Joint 3rd Prize:

Glenville Lovell,
“The Assassination of Luis Posada”
(Prose Fiction),
\$4,000

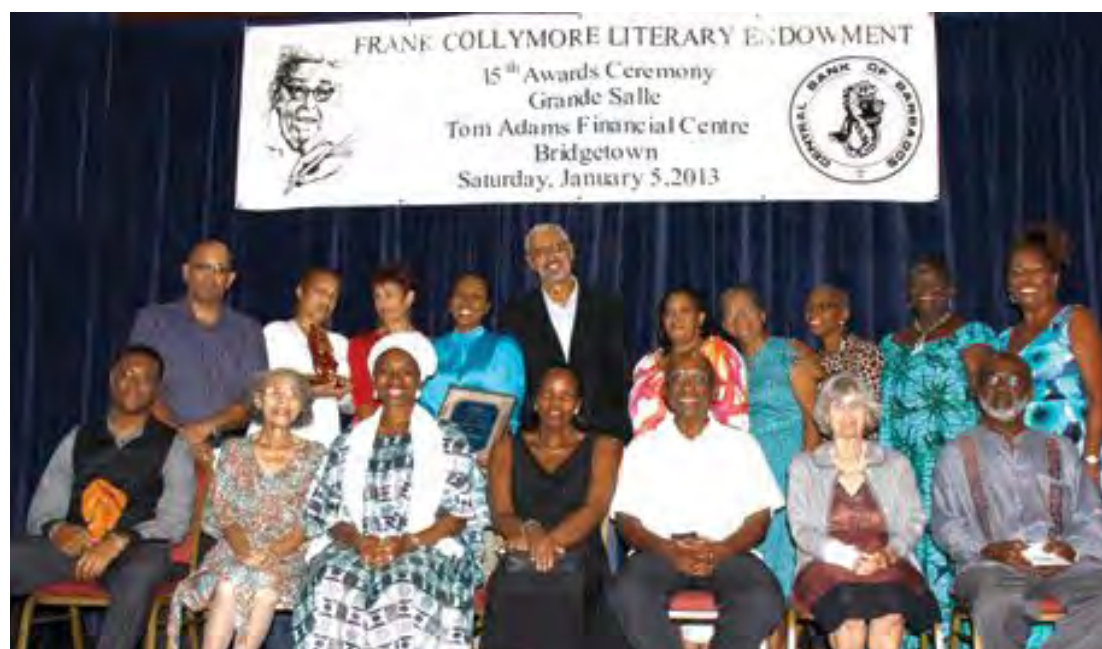
Joint 3rd Prize:

Brian Franklin,
“Iridium” (Prose Fiction),
\$4,000

Allison Cadogan’s “A Winter of Contentment” was the recipient of the Prime Minister’s award, which is given in recognition of writing that presents readers with original and provocative ways of viewing Barbadian culture and identity, and with a quality that strongly deserves recognition and encouragement.

40th Anniversary Celebrations

The Bank turned 40 during the year. To celebrate this milestone, the Bank hosted a church service and its first ever Open House, where the public welcomed the opportunity to interact with employees. The Bank also hosted an Awards Ceremony, a Health Day, and a family fun day. The Bank also produced and aired on CBC-TV, a documentary, “Barbados’ Economic and Social Transformation, Post-World War II.”



FCLE Committee Members and Awardees were joined by Frank Collymore’s widow, Mrs. Elice Collymore (seated, 3rd from left), Governor Dr. DeLisle Worrell and Mrs. Worrell at the Awards Ceremony.



Minister of Finance, the Honourable Christopher Sinckler, M.P. (2nd right) was among the specially invited guests who attended the 40th Anniversary Church Service at St. Mary’s Church.



The 40th Anniversary Open Day began with staff performing an original ‘Happy Birthday’ song’ under the leadership of André Burgess (4th right).



Secondary school students took the opportunity to chat informally with Governor Dr. DeLisle Worrell during the Open Day.



A large number of Bank staff as well as members of the public enjoyed a high-energy Zumba Fitness workout during the Health Fair.

2013 DOMESTIC OUTREACH PRIORITIES

- Continuing the educational series, "Foreign Exchange: The Lifeblood of Our Economy";
- Revamping the Bank's website;
- Enhancing publications.



During the Bank's first ever Open Day, the Grande Salle was transformed into an impressive exhibition hall where members of each department were on hand to answer questions and interact with the public.

9. INTERNATIONAL RELATIONS

Latin American Centre for Monetary Studies (CEMLA)

The Bank was represented at meetings of CEMLA's Board of Governors and Assembly in Valencia, Spain in May, and in Tokyo, Japan in October. During the latter meeting, the Governor presented a paper on exchange rate targeting in small open economies. It was also announced in Tokyo that Dr. Allan Wright, Senior Economist, had been selected for an internship at CEMLA's Headquarters in Mexico City. The Bank was represented at meetings of CEMLA's Committee of Alternates and Audit Committee in September. During August and September, Bank staff helped to evaluate a number of technical papers that had been entered for the Rodrigo Gomez Prize. The Bank also discussed with CEMLA the possibility of accessing technical assistance from the Bundesbank in the area of financial stability reporting.

Financial Stability Board (FSB)

The FSB's Regional Consultative Group for the Americas met during May, in Santiago de Chile, and during December in Bermuda. The Bank contributed to the Report of the Working Group on Home-Host Cooperation and Information Sharing which was on the agenda of the December meeting.

International Monetary Fund (IMF)

The Bank was represented on the Barbados delegations at both the Spring and Annual Meetings of the IMF. During the Annual Meetings, which were held in Tokyo, the Governor made a presentation on the rationale for Barbados' recent macro-economic policy and fiscal policy stance to the staff of the IMF. The Bank's representatives also held talks with bankers, investors, rating agencies and business journalists.

The Bank also hosted an IMF technical assistance mission which was aimed at diagnosing key elements of the Bank's processes for compiling Balance of Payments Statistics.

Committee of Central Bank Governors (CCBG)

The Governor attended meetings of the CCBG which were held in May and November in Suriname. At the May meeting, the Governor made a presentation on the importance to small open economies of adequate foreign exchange reserves.

International Regulatory Agencies

The Bank maintained close contact with, and supported the work of, agencies with responsibility for banking regulation. These included the Caribbean Financial Action Task Force, the Association of Supervisors of Banks of the

Americas, the Caribbean Group of Banking Supervisors, the Group of International Finance Centre Supervisors and the International Group of Banking Supervisors.

Other

A representative from the Bank attended a meeting of the Council for Finance and Planning that was held in St. Lucia in June. The Agenda included proposals for a restructuring of CLICO, a presentation on the Regional Architecture for Financial Stability and the impact of the US FATCA initiative.

During October, for the second consecutive year, a team led by the Governor visited Canada to hold talks with the Office of the Superintendent of Financial Institutions and the Bank of Canada on issues of mutual interest.

The Bank continued to be represented on the Executive Committee of the Caribbean Centre for Money and Finance and the Board of CARICRIS, the regional ratings agency. The Bank also continued its regular engagements with Moody's, Standard & Poor's, the IMF, CARTAC, and the Caribbean Association of Debt Managers.

PUBLICATIONS AND PAPERS

PUBLICATIONS

Belgrave, Anton; Kester Guy and Mahalia Jackman. "Industry-specific shocks and non-performing loans in Barbados." *The Review of Finance and Banking* vol 4, no. 2 (2012): 123-133.

Central Bank of Barbados Research and Economic Analysis Department, Debt Unit. "A note on NIS financing." *Central Bank of Barbados Economic Review* vol 38, no. 1 (2012): 1-10.

Guy, Kester; and Shane Lowe. "Tracing the liquidity effects on bank stability in Barbados." *Central Bank of Barbados Economic Review* vol 38, no. 1 (2012): 19-36.

Guy, Kester; Daniel Boamah, Alexis Lescott, and Tiffany Grosvenor. "Currency substitution: Evidence from the Caribbean." *Journal of Business, Finance and Economics* vol 7, no. 1 (2012): 1-20.

Jackman, Mahalia. "Correcting chronic current account deficits in a small open economy with a long-term peg: Empirical evidence for Barbados." *Empirical Economics Letters* vol 11, no. 4 (2012): 363-368.

Jackman, Mahalia. "Foreign exchange intervention in a small open economy with a long-term peg." *Economics Bulletin* vol 32, no. 3 (2012): 2207-2219.

Jackman, Mahalia. "Revisiting the tourism-led growth hypothesis for Barbados: A disaggregated market approach." *Regional and Sectoral Economic Studies* vol 12, no. 2 (2012): 15-26.

Jackman, Mahalia. "What prompts central bank intervention in the Barbadian foreign exchange market?" *Central Bank of Barbados Economic Review* vol 38, no. 1 (2012): 37-52.

Lowe, Shane; Roland Craigwell, and Danielle Bynoe. "The effectiveness of government expenditure on education and health care in the Caribbean." *International Journal of Development Issues* vol 11, no. 1 (2012): 4-18.

Thomas, Chrystol. "Assessing tax fairness: The case of a small open economy." *Business and Economics Journal* vol 62 (2012): 1-9.

Thomas, Chrystol. "Trade openness and inflation: Panel data evidence for the Caribbean." *International Business & Economics Research Journal* vol 11, no. 5 (2012): 507-516.

Walkes, Carlon. "On the forecast of the Barbados nominal gross domestic product." *Central Bank of Barbados Economic Review* vol 38, no. 1 (2012): 63-71.

Worrell, Delisle. "Stabilisation policy with a fixed market determined exchange rate." *Central Bank of Barbados Economic Review* vol 38, no. 1 (2012): 53-62.

Wright, Allan; Roland Craigwell, and Marie Freckleton. "Economic growth, foreign direct investment and corruption in developed and developing countries." *Journal of Economic Studies* vol 39, no. 6 (2012): 639-652.

Wright, Allan; Roland Craigwell, and Yanique Carby. "Finance and growth causality: A test of the Patrick's Stage of Development

hypothesis." *International Journal of Business and Social Science* vol 3, no. 21 (2012): 129-139.

PAPERS PRESENTED AT CONFERENCES

Belgrave, Anton; Octavia Gibson, Estherline O'Neal and Kester Guy, "Reforming the currency forecasting framework at the Central Bank of Barbados." 32nd Central Bank of Barbados Annual Review Seminar, Barbados, July 23-26, 2012.

Browne, Rudolph; and Winston Moore. "How quickly does Caribbean tourism demand recover after severe exogenous shocks?" 32nd Central Bank of Barbados Annual Review Seminar, Barbados, July 23-26, 2012.

Browne, Rudolph; and Winston Moore. "How quickly does Caribbean tourism demand recover after a severe shock?" 44th Annual Monetary Studies Conference, Paramaribo, Suriname, November 7-9, 2012.

Burgess, Andre; Allan Wright and Ronnie Griffith. "An analysis of behavioural patterns of inbound tourists to Barbados, 2004-2011: Hotels vs. non-traditional accommodations." Sixth Annual Lecture-Seminar Series, Economic Affairs Division (EAD), Ministry of Finance and Economic Affairs, Barbados, September 28, 2012.

Burgess, Andre; and Ronnie Griffith. "Filling the information gaps on tourism." Quarterly Briefing of Barbados Hotel and Tourism Association (BHTA), Barbados, December 12, 2012.

Carter, Justin; and Winston Moore. "Should we be concerned about the level of household debt in Barbados?" 32nd Central Bank of Barbados Annual Review Seminar, Barbados, July 23-26, 2012.

Craigwell, Roland; Allan Wright and Yanique Carby. "Finance and growth causality." 32nd Central Bank of Barbados Annual Review Seminar, Barbados, July 23-26, 2012.

Guy, Kester; and Shane Lowe. "Tracing the liquidity effects on bank stability in Barbados." Global Business Development Institute (GBDI) 16th International Conference, Nevada, USA, March 19-21, 2012.

Husbands, Olivia; and Shane Lowe. "How much do you really like smart phones? An application of the diffusion of innovations theory: The Case of Barbados" 32nd Central Bank of Barbados Annual Review Seminar, Barbados, July 23-26, 2012.

Jackman, Mahalia; and Troy Lorde. "Why pay when it's free? A behavioural model for digital piracy in Barbados." 32nd Central Bank of Barbados Annual Review Seminar, Barbados, July 23-26, 2012.

LaCorbiniere, Jason. "A note on national insurance financing." 32nd Central Bank of Barbados Annual Review Seminar, Barbados, July 23-26, 2012.

Lowe, Shane. "Barbadian mutual funds and VaR: Just how much can you lose?" 32nd Central Bank of Barbados Annual Review Seminar, Barbados, July 23-26, 2012.

McKenzie, Sidonia; and Roland Craigwell. "Determinants of investments in the traded and non-traded sectors." 32nd Central Bank of Barbados Annual Review Seminar, Barbados, July 23-26, 2012.

Moore, Alvon; Ryan Bynoe, DeLisle Worrell, Terry Hanton and Jason Applewhite. "The villa sector in Barbados." 32nd Central Bank of Barbados Annual Review Seminar, Barbados, July 23-26, 2012.

Thomas, Chrystol; and Kimberly Waithe. "The causal relationship between healthcare expenditure and GDP : A multivariate causality analysis for Barbados." Finance, Economic and Global Business Research Conference, Miami, December 13-16, 2012.

Walkes, Carlon. "Forecasting inflation in Barbados." 32nd Central Bank of Barbados Annual Review Seminar, Barbados, July 23-26, 2012.

Worrell, Delisle; Shane Lowe and Simon Naitram. "Growth forecast for foreign exchange constrained economies." 32nd Central Bank of Barbados Annual Review Seminar, Barbados, July 23-26, 2012.

Wright, Allan. "Developing a sustainable Caribbean tourism product: Examining the impact of repeat visitors." 32nd Central Bank of Barbados Annual Review Seminar, Barbados, July 23-26, 2012.

Wright, Allan; Andre Burgess and Alexis Lescott. "Tourism estimation, Competitiveness and challenges in a tourism micro state, 2000-2011." 32nd Central Bank of Barbados Annual Review Seminar, Barbados, July 23-26, 2012.

Worrell, Delisle. "Policies for stabilisation and growth in small very open economies." 32nd Central Bank of Barbados Annual Review Seminar, Barbados, July 23-26, 2012.

Worrell, DeLisle; Kevin Greenidge and Shane Lowe. "Competitiveness in the Caribbean and Central America." 32nd Central Bank of Barbados Annual Review Seminar, Barbados, July 23-26, 2012.

Worrell, DeLisle; Tracy Maynard, Chrystol Thomas and Michelle Doyle-Lowe. "A review of the VAT system in Barbados." 32nd Central Bank of Barbados Annual Review Seminar, Barbados, July 23-26, 2012.

ADOPTION OF FINANCIAL STATEMENTS 2012

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 \$86 million in 2012, the result of increased holdings of foreign assets. The level of Domestic Assets remained constant. The statutory lending limit increased from \$249.2 million to \$262.0 million in accordance with Government's estimates of revenue for the fiscal year and amounts outstanding were within the statutory limit. For the third consecutive year, notes and coins in circulation increased modestly as the transaction volumes for Point of Sale and ATM transactions contained the growth of the use of physical currency. Government reduced its deposits with the Bank by \$184.3 million, while commercial banks' deposits at the Bank jumped by \$275.4 million.

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 decreased from \$54.0 million in 2011 to \$53.0 million in 2012. Total Income for 2012 includes a non-recurring distribution of capital and accumulated earnings of \$5.9 million from the Barbados Investment Fund as the Bank

exited the Fund during the year. In addition, the Bank benefitted from gains of \$3.0 million arising from Advances to Government and increased holdings of domestic Treasury bills. However, there was a reduction in income on foreign securities and foreign term deposits which constitute the major source of income for the Bank.

The Fedfunds rate has remained at 25bp throughout 2009 to 2012 and the yields on the Bank's investment portfolio have declined over this period. Several high yielding securities were called during this period, the re-investment yields of which are extremely low. Other reductions were recorded for gains on sale of securities (\$3.0 million), commission and fees (\$2.5 million) and foreign exchange gains (\$1.5 million).

Operating Expenses

Total expenses remained constant at \$56 million and there were no unusual or non-recurring items. Salaries and Administrative Expenses increased by \$0.9 million and \$1.2 million, respectively, but these were off-set by a decrease of \$1.7 million in contributions to the Bank's pension plan. Purchases of notes and coins also declined by \$0.7 million.

The CMCF debt matured at April 01, 2009 and the total provision for impairment at December 31, 2012 is \$15.8 million. The Bank and the CMCF agent are in the process of liquidating this debt.

Results for the Year

As a result of the declines in revenue, the Bank incurred a net loss of \$2.7 million during the year. This loss will be applied to the accumulated deficit at December 31, 2011.

Future Accounting Changes

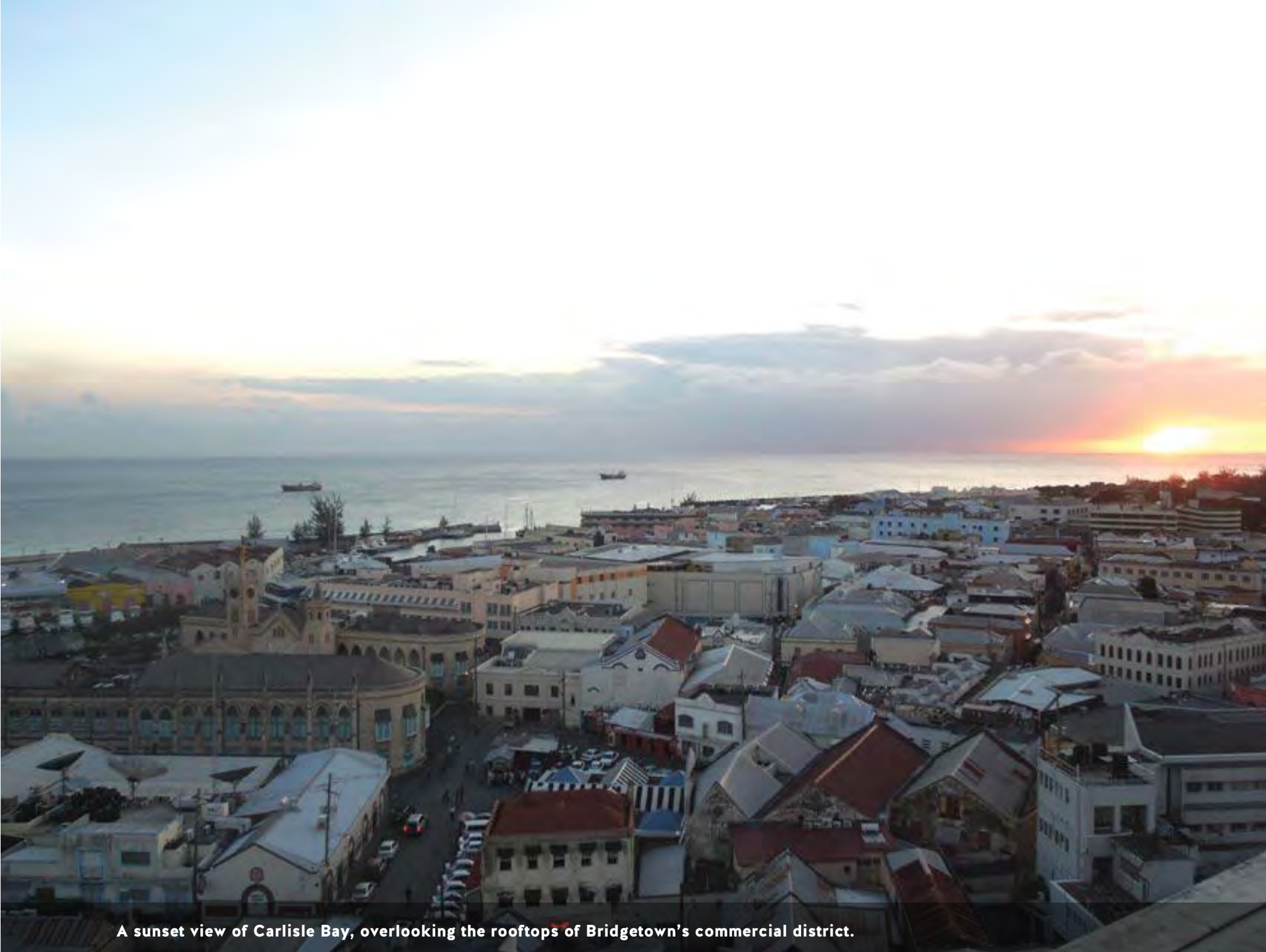
The Bank's financial statements are currently prepared in accordance with the Central Bank Act and International Financial Reporting Standards (IFRS) with disclosure limitations. The Bank and the Ministry of Finance are in the process of incorporating the proposed accounting changes in amended legislation. In the interim, the Bank will continue to identify key areas of differences between current reporting standards and IFRS.

The impact of adopting IFRS cannot be reasonably measured and determined at this time.

Adoption of Financial Statements

Annexed to this report are the Auditors' Certificate, Balance Sheet as at December 31, 2012, the Profit and Loss Account, The Profit and Loss Appropriation, 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, 2012.



A sunset view of Carlisle Bay, overlooking the rooftops of Bridgetown's commercial district.

FINANCIAL STATEMENTS AND REPORTS

DECEMBER 31, 2012

- 38** Auditors' Report to the Board of Directors
- 39** Balance Sheet
- 41** Profit and Loss Account
- 42** Profit and Loss Appropriation Account
- 43** Statement of Cash Flows
- 44** Notes to Financial Statements



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AUDITORS' REPORT TO THE BOARD OF DIRECTORS

We have audited the accompanying financial statements of Central Bank of Barbados (the "Bank"), which comprise the balance sheet as at December 31, 2012, the profit and loss account, profit and loss appropriation account, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements of the Bank for the year ended December 31, 2012 have been properly 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.

Chartered Accountants
Bridgetown, Barbados
February 28, 2013

BALANCE SHEET

DECEMBER 31, 2012

WITH COMPARATIVE FIGURES FOR 2011

ASSETS			
	NOTES	2012	2011
		BDS\$	BDS\$
RESERVE OF EXTERNAL ASSETS:			
Balances Held Abroad	2	215,971,196	243,847,823
Foreign Notes and Coins		2,943,879	10,847,393
Foreign Securities	3	<u>847,404,500</u>	<u>716,387,755</u>
		<u>1,066,319,575</u>	<u>971,082,971</u>
International Monetary Fund:			
Reserve Tranche	4	18,104,820	18,974,047
Holdings of Special Drawing Rights	4	<u>176,185,500</u>	<u>184,020,946</u>
		<u>194,290,320</u>	<u>202,994,993</u>
Total Reserve of External Assets		<u>1,260,609,895</u>	<u>1,174,077,964</u>
LOCAL ASSETS:			
Local Securities:			
Barbados Government Treasury Bills	5	159,516,443	177,427,299
Barbados Government Debentures	5	<u>75,000,000</u>	<u>75,000,000</u>
		<u>234,516,443</u>	<u>252,427,299</u>
Advances:			
Government		260,100,000	247,620,000
Fixed Assets (Net)	6	93,021,463	94,617,827
Other Assets	7	<u>40,372,750</u>	<u>34,886,026</u>
Total Local Assets		<u>628,010,656</u>	<u>629,551,152</u>
		<u>1,888,620,551</u>	<u>1,803,629,116</u>

See accompanying notes to accounts.

BALANCE SHEET

DECEMBER 31, 2012

WITH COMPARATIVE FIGURES FOR 2011

LIABILITIES, CAPITAL AND RESERVES			
	NOTES	2012	2011
		BDS\$	BDS\$
LIABILITIES:			
Notes and Coins in Circulation	8	<u>669,274,479</u>	<u>650,217,648</u>
Deposits:			
Government		79,276,417	263,585,311
Banks		824,966,263	549,620,807
Financial Institutions		1,486,290	857,307
Other		<u>2,817,315</u>	<u>7,852,706</u>
		<u>908,546,285</u>	<u>821,916,131</u>
Other Liabilities:			
Allocation of Special Drawing Rights	9	200,752,291	210,390,564
Other	10	<u>77,032,827</u>	<u>91,559,945</u>
		<u>277,785,118</u>	<u>301,950,509</u>
Total Liabilities		<u>1,855,605,882</u>	<u>1,774,084,288</u>
Other Funds	11	<u>26,108,780</u>	<u>19,978,163</u>
CAPITAL AND RESERVES:			
Authorized capital: BDS\$5,000,000			
Paid up capital: Government of Barbados		2,000,000	2,000,000
Accumulated Deficit		(11,094,111)	(8,433,335)
General Reserve		<u>16,000,000</u>	<u>16,000,000</u>
Net Capital and Reserves		<u>6,905,889</u>	<u>9,566,665</u>
Commitments and Contingencies	12	<u>1,888,620,551</u>	<u>1,803,629,116</u>

Approved on behalf of the Board of Directors on February 28, 2013.

.....Governor

.....Financial Controller

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED DECEMBER 31, 2012

WITH COMPARATIVE FIGURES FOR 2011

	NOTES	2012	2011
		BDS\$	BDS\$
INCOME:			
Commissions and Fees		7,748,048	10,217,595
Discounts:			
Treasury Bills		3,252,542	1,601,134
Interest:			
Advances		7,630,108	6,257,151
Deposits		263,671	287,994
Securities		25,635,615	28,592,627
Other Income	13, 15	7,550,039	2,107,498
Foreign Exchange gain		908,411	2,419,521
Investment impairment recovery	3	406,514	-
(Loss) gain on sale of Foreign Securities		(435,121)	2,529,542
Total Income		<u>52,959,827</u>	<u>54,013,062</u>
EXPENSES:			
Administrative Expenses		16,975,038	15,771,804
Depreciation	6	5,444,382	5,490,246
Interest		81,990	117,496
Minting of Coins		2,321,407	2,694,608
Printing of Notes		1,444,510	1,801,437
Retirement Benefits	14	2,809,653	4,482,349
Salaries and Allowances		<u>26,543,623</u>	<u>25,617,875</u>
Operating Expenses		<u>55,620,603</u>	<u>55,975,815</u>
Loss before Appropriation		<u>(2,660,776)</u>	<u>(1,962,753)</u>

See accompanying notes to accounts.

PROFIT AND LOSS APPROPRIATION ACCOUNT FOR THE YEAR ENDED DECEMBER 31, 2012

WITH COMPARATIVE FIGURES FOR 2011

	2012	2011
	BDS\$	BDS\$
Balance brought forward	(8,433,335)	(6,470,582)
Loss before Appropriation	<u>(2,660,776)</u>	<u>(1,962,753)</u>
Accumulated Deficit carried forward	<u>(11,094,111)</u>	<u>(8,433,335)</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, 2012

WITH COMPARATIVE FIGURES FOR 2011

	NOTES	2012	2011
		BDS\$	BDS\$
Cash flows from operating activities			
Loss before appropriation		(2,660,776)	(1,962,753)
Adjustments for:			
Depreciation		5,444,382	5,490,246
Loss on disposal of fixed assets		24,450	20
Debt Recovery		(406,514)	-
Operating profit before working capital changes		2,401,542	3,527,513
(Increase) decrease in other assets		(5,486,724)	5,309,059
Net movement in foreign securities		(130,610,231)	81,972,343
Decrease (increase) in reserve tranche		869,227	(1,285,752)
Decrease (increase) in holdings of special drawing rights		7,835,446	(12,395,016)
Decrease (increase) in local securities		17,910,856	(157,472,061)
Increase in government advances		(12,480,000)	(18,230,000)
Increase in deposits		86,630,154	173,868,986
Decrease in other liabilities		(14,527,118)	(194,981)
Net cash (used in) from operating activities		<u>(47,456,848)</u>	<u>75,100,091</u>
Cash flows from investing activities			
Purchase of fixed assets		<u>(3,872,468)</u>	<u>(6,602,725)</u>
Net cash used in investing activities		<u>(3,872,468)</u>	<u>(6,602,725)</u>
Cash flows from financing activities			
(Decrease) increase in allocation of special drawing rights		(9,638,273)	14,256,846
Increase in notes and coins in circulation		19,056,831	1,457,583
Increase in other funds		<u>6,130,617</u>	<u>7,994,456</u>
Net cash from financing activities		<u>15,549,175</u>	<u>23,708,885</u>
Net (decrease) increase in cash and cash equivalents		(35,780,141)	92,206,251
Cash and cash equivalents at beginning of year		<u>240,623,857</u>	<u>148,417,606</u>
Cash and cash equivalents at end of year		<u>204,843,716</u>	<u>240,623,857</u>
Cash and cash equivalents comprise:			
Current Account Balances	2	201,899,837	229,776,464
Foreign Notes and Coins		<u>2,943,879</u>	<u>10,847,393</u>
		<u>204,843,716</u>	<u>240,623,857</u>

See accompanying notes to accounts.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

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, the 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), 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 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 13.

Other significant accounting policies:

(a) Use of Estimates and Judgement:

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

(b) Income and Expenses:

Income and expenses are accounted for on the accrual basis except that interest on the Caricom Multilateral Clearing Facility and the CRL Ltd. loan facility 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 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.

(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.

2

**BALANCES
HELD ABROAD**

Balances held abroad comprise:

	2012	2011
	\$	\$
Current accounts and deposits with foreign banks	201,899,837	229,776,464
Caricom Multilateral Clearing Facility (C.M.C.F) (Net of provision: 2012: \$15,798,141 (2011: \$15,798,141)	<u>14,071,359</u>	<u>14,071,359</u>
	<u>215,971,196</u>	<u>243,847,823</u>

The CMCF Account matured on April 01, 2009. The Bank expects to receive settlement from the CMCF Accumulated Fund. The impairment provision of \$15,798,141 was recognized in the financial statements as follows:-

YEAR	AMOUNT
	\$
2010	4,159,570
2009	1,636,951
2008	4,400,000
2007 and prior years	<u>5,601,620</u>
	<u>15,798,141</u>

3

**FOREIGN
SECURITIES**

Foreign securities comprise:

	2012		2011	
	Amortized Cost \$	Market Value \$	Amortized Cost \$	Market Value \$
At Market Value:				
Bonds/Debentures	821,489,199	847,070,483	696,603,071	716,053,738
Equities	<u>306,521</u>	<u>334,017</u>	<u>306,521</u>	<u>334,017</u>
	<u>821,795,720</u>	<u>847,404,500</u>	<u>696,909,592</u>	<u>716,387,755</u>

- (a) The unrealized gain of \$25,608,780 (2011: \$19,478,163) arose on the revaluation of Securities and is included in Other Funds. See note 11.
- (b) A realized gain of \$406,514 arose on the recovery of an impaired security and is included in the Profit and Loss Account.

4

**RESERVE
TRANCHE**

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, 2012. The balances held at December 31, 2012 amounted to SDR 5,805,546 (2011: SDR 5,805,546) and SDR 56,496,171 (2011: SDR 56,305,441), respectively. The rate of translation of SDRs into Barbados dollars at December 31, 2012 is BDS\$1 = SDR 0.320663 (2011: BDS\$1 = SDR 0.305973).

5

**LOCAL
SECURITIES**

Local securities comprise:

	2012		2011	
	Nominal Value \$	Cost \$	Nominal Value \$	Cost \$
Barbados Government Treasury Bills	160,939,000	159,516,443	178,715,500	177,427,299
Barbados Government Debentures	<u>75,000,000</u>	<u>75,000,000</u>	<u>75,000,000</u>	<u>75,000,000</u>
	<u>235,939,000</u>	<u>234,516,443</u>	<u>253,715,500</u>	<u>252,427,299</u>

6

**FIXED
ASSETS**

Fixed assets comprise:

	Freehold Land and Buildings \$	Furniture, Plant and Equipment \$	Motor Vehicles \$	Total \$
Cost:				
January 1, 2011	98,524,286	53,500,827	592,746	152,617,859
Additions	3,613,060	2,989,665	-	6,602,725
Disposal/write-offs	-	(66,738)	-	(66,738)
December 31, 2011	<u>102,137,346</u>	<u>56,423,754</u>	<u>592,746</u>	<u>159,153,846</u>
Additions	1,247,283	2,449,819	175,366	3,872,468
Disposal/write-offs	-	(384,151)	-	(384,151)
December 31, 2012	<u>103,384,629</u>	<u>58,489,422</u>	<u>768,112</u>	<u>162,642,163</u>
Accumulated Depreciation:				
January 1, 2011	21,872,889	36,734,230	505,372	59,112,491
Charge for the year	1,388,358	4,057,194	44,694	5,490,246
Eliminated on disposals	-	(66,718)	-	(66,718)
December 31, 2011	<u>23,261,247</u>	<u>40,724,706</u>	<u>550,066</u>	<u>64,536,019</u>
Charge for the year	1,503,649	3,914,693	26,040	5,444,382
Eliminated on disposals	-	(359,701)	-	(359,701)
December 31, 2012	<u>24,764,896</u>	<u>44,279,698</u>	<u>576,106</u>	<u>69,620,700</u>
Net Book Values:				
December 31, 2012	<u>78,619,733</u>	<u>14,209,724</u>	<u>192,006</u>	<u>93,021,463</u>
December 31, 2011	<u>78,876,099</u>	<u>15,699,048</u>	<u>42,680</u>	<u>94,617,827</u>
December 31, 2010	<u>76,651,397</u>	<u>16,766,597</u>	<u>87,374</u>	<u>93,505,368</u>

7

OTHER ASSETS

Other assets include:

	2012	2011
	\$	\$
Accrued income	2,785,998	2,704,716
Cheques in process of collection	3,546,658	2,149,172
CRL Limited (a)	9,000,000	9,000,000
Prepayments	3,254,138	1,186,120
Special Development Bonds – Sinking Fund	639,331	-
Staff advances	19,309,928	18,644,775
Sundry balances	1,836,697	1,201,243
	40,372,750	34,886,026

(a) The CRL Limited loan, which bears interest at a rate of 6% per annum was originally due from the Barbados Development Bank. The Government of Barbados has issued a letter of comfort in respect of this loan. During 1998, the facility was transferred to CRL. The Government has undertaken to repay the debt on behalf of CRL Limited. At December 31, 2012, the cumulative interest not recognized was \$4,861,973 (2011: \$4,861,973).

8

NOTES AND COINS IN CIRCULATION

At December 31, 2012, the nominal value of numismatic coins sold, totaled approximately \$10.4 million (2011:\$10.4 million) and are 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.

10

OTHER

This amount comprises:

	2012	2011
	\$	\$
Accounts payable	1,202,810	5,678,555
Special Development Bonds - Sinking Fund	-	447,870
Contribution payable - Secondary Mortgage Market Project	242,319	242,319
Contribution payable - Barbados Investment Fund	-	300,000
Contribution payable - UWI Fund re Chair in Banking	861,169	861,169
Debenture Interest payment account	836,103	24,179
Deposit Insurance Company accounts	115,774	147,772
Domestic clearing	4,822,769	5,539,446
Dormant accounts (i)	31,366,949	22,642,716
Export Development Fund	201,169	201,169
Housing Credit Fund General account	7,062,628	5,648,273
Industrial Credit Fund	5,372,729	5,374,831
Redemption of Debentures account	20,585,620	37,835,620
Sinking Fund Contribution account	221,018	4,271,407
Small Business Fund	330,000	330,000
Staff Pension Fund	281,769	254,388
Staff Welfare Fund	593,205	792,010
Sundry balances	2,936,796	968,221
	<u>77,032,827</u>	<u>91,559,945</u>

(i) Dormant accounts comprise:

	2012	2011
	\$	\$
Banks – local and international (a)	27,056,500	22,642,746
Financial Services Commission (b)	<u>4,310,449</u>	<u>-</u>
	<u>31,366,949</u>	<u>22,642,746</u>

(a) Deposits made by Banks which represents 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.

11

OTHER FUNDS

This amount comprises the following balances:

	2012	2011
	\$	\$
Special Credit Trust	500,000	500,000
Unrealised gains on revaluation of investments (note 3)	25,608,780	19,478,163
	<u>26,108,780</u>	<u>19,978,163</u>

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

12

COMMITMENTS AND CONTINGENCIES

(a) At December 31, 2012 the Bank had guaranteed settlement of approximately \$1,208,121 (2011: \$1,141,944) under the following scheme:

	2012		2011	
	Value of Contracts \$	Guarantee \$	Value of Contracts \$	Guarantee \$
Credit Insurance Scheme for Small Businesses	<u>1,528,972</u>	<u>1,208,121</u>	<u>1,534,422</u>	<u>1,141,944</u>

(b) Additionally, at December 31, 2012, the Bank had contracts for capital expenditure in the amount of \$2,864,722 (2011:\$1,154,762).

13

RELATED PARTY TRANSACTIONS

Other income includes management fees received as follows:

	2012	2011
	\$	\$
Industrial Credit Fund	236,274	196,450
Housing Credit Fund	<u>579,161</u>	<u>560,528</u>
	<u>815,435</u>	<u>756,978</u>

At December 31, 2012, the Bank owned and/or managed certain entities. The gross assets as disclosed in the entities’ financial statements are as follows:

	2012	2011
	\$	\$
Export Credit Insurance	10,609,228	10,315,123
Small Business Guarantee	9,982,046	9,694,238
Industrial Credit Fund	132,968,714	128,547,191
Housing Credit Fund	168,189,997	162,770,907
	<u>321,749,985</u>	<u>311,327,459</u>

14

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, 2012 revealed the following:

	2012	2011
	\$	\$
Fair value of plan assets	126,872,532	120,563,485
Actuarial present value of liabilities	<u>130,207,774</u>	<u>121,686,692</u>
Unfunded liability	<u>(3,335,242)</u>	<u>(1,123,207)</u>

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

	2012	2011
Rate of return of assets	6% per annum	6% per annum
Rate of salary inflation and promotional increases	4% per annum	4% per annum
Rate of escalation of NIS Ceiling	3% per annum	3% per annum
Rate of pension increases	2% per annum	2% per annum

The actuary has recommended that a funding rate of 12.66% (2011: 12.73%) of covered payroll be used for new benefits. Consequently the deficit will be funded by a rate of 1.21% over a period of fifteen (15) years. In 2011 the rate of 0.42% was applied to the amortization of the surplus over a similar period of fifteen (15) years. The total recommended funding rate of 13.87% (2011: 13.15%) of covered payroll should obtain until the next valuation.



Pursuant to a decision of the Board on January 26, 2012, the Bank, by mutual agreement exited the Barbados Investment Fund (“BIF”) and received distributions of \$5,905,830, which represent a return of capital and accumulated earnings. This amount was recognised as income and charged to the Profit and Loss Account. Previous contributions to the Fund were expensed as incurred.



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

NOTES

NOTES



ANNUAL REPORT 2012

**CELEBRATING
OUR NATIONAL
HERITAGE**

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