



Annual Report 2011

TOWARDS A GREEN ECONOMY



The cover prominently features a green leaf as a strong representation of the environment in the theme of 'Towards a Green Economy'. The background of the cover includes financial figures to subtly emphasize that the development of a green economy is directly related to the overall viability of the Barbadian economy.



CENTRAL BANK OF BARBADOS

Annual Report 2011

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:

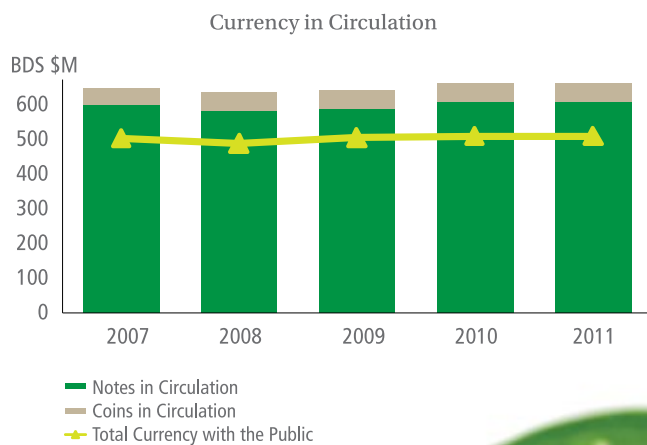
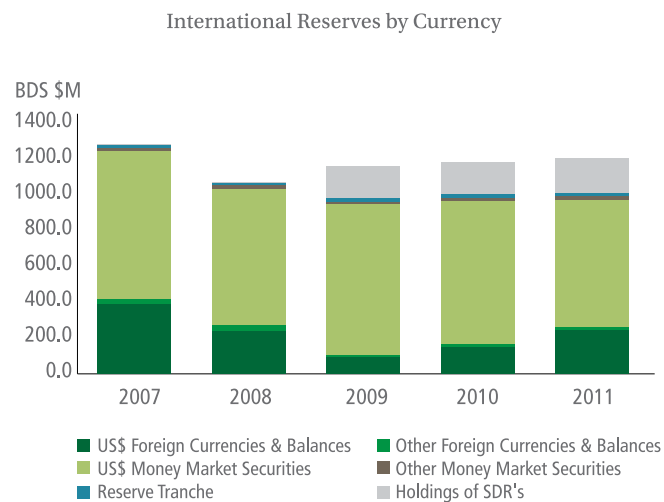
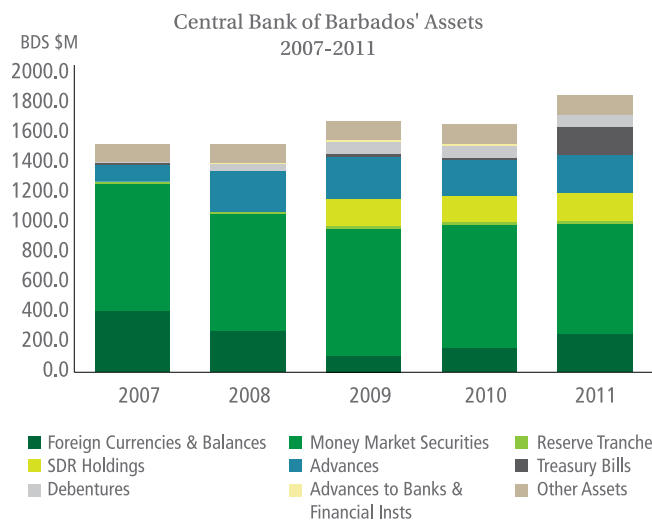
- regulating the issue, supply, availability and international exchange of money;
- promoting monetary stability;
- promoting a sound financial structure;
- fostering development of the money and capital markets; and
- fostering credit and exchange conditions conducive to the orderly and sustained economic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

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2011 Indicators



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 30, 2012

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, 2011 as certified by the External Auditors in accordance with Section 51 of the Act, together with the Report on its operations during 2011.

The original of the Auditors' Report and Certificate was forwarded to you with my letter of March 21, 2012.

Sincerely,



Board of Directors



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



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



Mr. Cecil McCarthy
Q.C., LL. B. (UWI), L.E.C.



Ms. Onika Stewart
LL. B. (UWI), LL. M (Lond), L.E.C.



Justin Robinson
BSc. (UWI), MSc., Ph. D. (Manc.)



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



Mr. Harold Hoyte
G.C.M.



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

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. 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

Ms. Sadie P.O. Dixon

LL.B., LL.M., L.E.C.
Secretary to the Board ag.

Mr. Elson A. Gaskin

LL.B., L.E.C.
Secretary to the Board (on leave)

Dr. Kevin C. Greenidge

Ph.D.
Director,
Research and Economic Analysis (on leave)

Ms. Janice D. Marshall

M.B.A.
Director, Management
Information Systems

Mrs. Janis O. Marville

M.Sc.
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

Ms. Celeste J. Wood

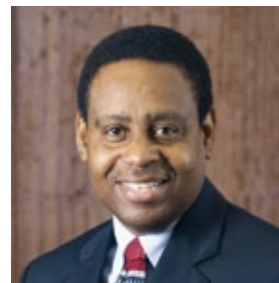
M.Sc., M.B.A.
Adviser to Governor



R. DeLisle Worrell



Mr. Harold E. Codrington



Mr. Cleviston L. Haynes



Mrs. Marlene E. Bayne



Mr. Charles Briggs



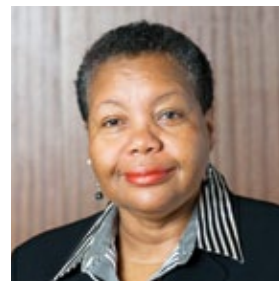
Mr. Michael D. Carrington



Mrs. Michelle Doyle-Lowe



Ms. Sadie P.O. Dixon



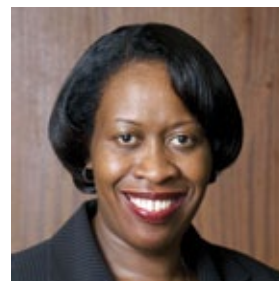
Ms. Janice D. Marshall



Mrs. Janis O. Marville



Mr. Steve A. Vaughn



Ms. Julia A. Weekes



Mr. Peter H. Whitehall



Ms. Celeste J. Wood

Other Senior Officers

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

Mr. David A. Boyce, A.F.A., F.I.A.B., Dip. M.S., M.B.A.
Deputy Director, Foreign Exchange and Export Credits

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

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, C.G.A.
Deputy Financial Controller

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

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

Mr. Ian Collymore, M.Sc.
Assistant Director, Foreign Exchange & Export Credits

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

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

Mrs. Josephine Haywood, C.G.A.
Assistant Director, Management Information Systems

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

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

Governor's Report



Dr. DeLisle Worrell
Governor



Economic Outlook

Barbados' economy remained stable during 2011, but the uncertain outlook, particularly as it pertains to its main trading partners, continued to dampen the pace of economic recovery.

While domestic activity was weaker than anticipated, the country's foreign reserves, which underpin macroeconomic stability, fell marginally only as Government intensified its effort to reduce the fiscal deficit and lower its debt ratios. The Bank considers this policy approach to be central to achieving sustainable growth and job creation over the medium term.

Growth prospects for 2012 are tempered by the unsettled international climate. However, opportunities for growth lie in Barbados' competitive tourism sector which should be enhanced by new investments in luxury accommodation and amenities, together with the refurbishment and upgrade of existing plant. These developments need to be supported by a renewed thrust to stimulate growth in international business and financial services. The development of alternative energy is an important source of potential growth and foreign exchange savings.

Organisational Developments

In 2011, the Bank continued to focus on its goal of achieving high quality service, efficiency and enhanced productivity, while promoting the development of a highly motivated staff. A number of initiatives were designed to create opportunities for staff to feel empowered and confident enough to grow and develop in an atmosphere of caring and mutual support, and we have begun to see the results in terms of improved performance, and the good feeling of accomplishment that success brings. A major achievement was the official launch of an Emotional Intelligence (EI) programme, which emphasises the importance of emotional self-awareness and control, relational skills, leadership and teamwork. In addition, career streaming was expanded across the organisation in recognition of the fact that the Bank is now a mature organisation, comprising mainly knowledge workers and there needs to be increased emphasis on analytical and critical thinking coupled with greater opportunities for job enrichment. These are important steps towards making our vision of a caring, dynamic, world-class organisation a reality.

The Bank continued to strengthen its capabilities, particularly in its core mandates of macroeconomic and financial stability, by exposing its staff to current developments in their field of interest. During 2011,

the Bank relaunched its Economic Review as an on-line publication, with an emphasis on economic policy issues. In addition, the Bank sustained its initiatives to enhance efficiency and productivity through process improvements in its key operations.

Financial Performance

The Bank incurred a deficit in 2011, the result of several factors which adversely affected its income. Interest rates on the Bank's foreign asset portfolio fell to historic lows and while the foreign exchange reserves remained at comfortable levels, the ongoing decline in interest rates, a lower volume of foreign exchange transactions than in 2010 and the impact of the policy decision to reduce foreign exchange margins contributed to the deficit. Recent forecasts by the United States Federal Reserve are that the low interest rate environment is likely to continue at least into 2014.

The Bank recognises that low interest rates are likely to compromise its income for a longer period than was envisaged. Most of the Bank's costs are relatively fixed, but the Bank is committed to containing costs through increased efficiency.

2012 Strategies

As the Bank approaches its 40th year, our vision is to accelerate the pace at which we transform our policies, practices and processes to enable us to become a world-class institution, operating within a team-oriented, responsive and caring environment. In order to achieve this, a strategic priority is to create opportunities for further job enrichment by continually upgrading our skills, engaging more fully in critical and innovative

thinking and reviewing our organisational structures and processes. The Bank will continue to identify EI values, and promote cooperative behaviours at all levels of the organisation.

In line with its strategic objective of promoting macroeconomic stability through sound economic analysis, the Bank will respond with reliable research and advice, quality output and world quality service to the challenges in the local and international environment. The Bank will also build on its well-established reputation of providing quality economic analysis by making full use of all available media to disseminate information to a wide cross-section of society.

The Bank launched its Financial Stability Report early in 2012. It assessed the performance and resilience of the domestic financial services sector through a series of stress tests. The results will be published twice annually. Moreover, the Bank will work closely with the recently established Financial Services Commission (FSC) to identify potential systemic financial risks. In addition, both regulatory agencies are expected to initiate self-assessments of their regulatory and supervisory frameworks in advance of the planned financial sector assessment by the International Monetary Fund in 2013.

Further upgrade of the framework governing the international business and financial services (IBFS) sector will continue to engage the attention of the Bank in 2012. This enhanced focus is attributable to the importance of the sector and the external challenges to its growth and development. The Bank will increase its presence in international regulatory fora to ensure that Barbados' position is well articulated on regulatory matters pertaining to international business.

2011 Economic Review

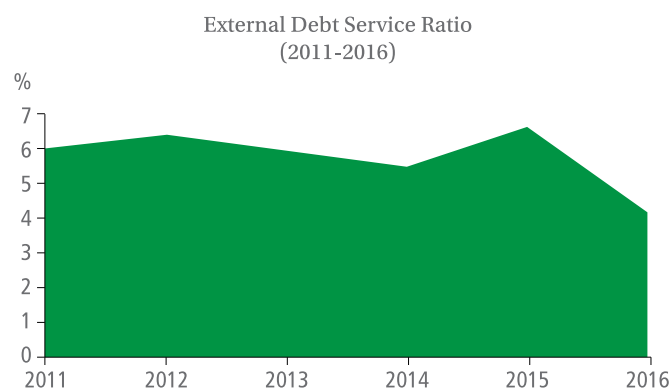
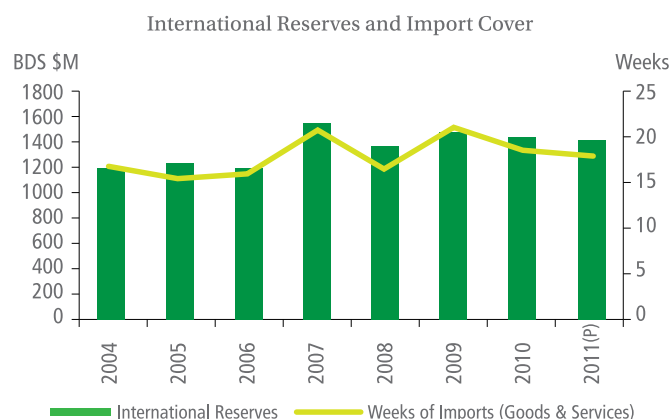
The Barbadian economy remained stable in 2011, in a climate of undiminished international economic uncertainty.

Estimated foreign exchange spending of \$5.6 billion was financed almost entirely by exports of goods and services and capital inflows. As a result, the Bank's foreign exchange reserves fell by only 1 percent between the end of 2010 and December 2011. The Barbados currency remained well protected, with foreign reserve cover of 18 weeks of imports at December 2011, comfortably above the international norm of 12 weeks.

FOREIGN EXCHANGE FLOWS BY CATEGORY 2009 - 2011			
	2009	2010	2011
	BDS \$M	BDS \$M	BDS \$M
Foreign Exchange Outflows	5,132	5,321	5,565
Financed by:			
Travel Receipts	2,136	2,067	1,948
Other Services	912	1,179	1,184
Total Exports	757	859	931
Income	515	472	472
Transfers	187	222	229
Capital Inflows (including unidentified)	754	469	786
Foreign Reserves*	-129	53	15

* - indicates an increase in international reserves

Government sustained its efforts at fiscal consolidation, reducing the fiscal deficit from 7.4 percent to an estimated 4.8 percent of GDP for April to December,



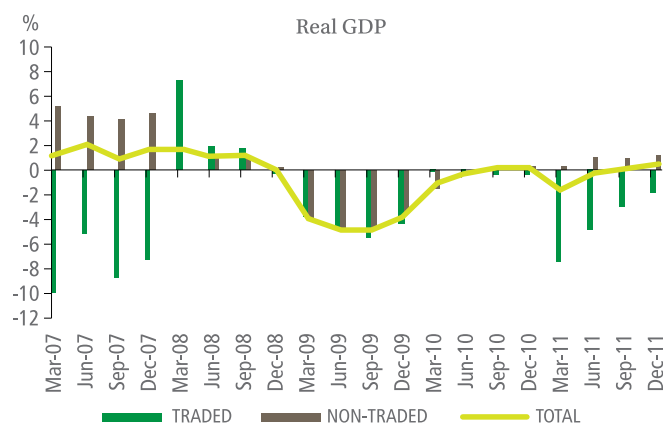
broadly in line with the revised targets of Government's Medium Term Fiscal Strategy (MTFS), which sets out policies to achieve a balanced budget by 2016/2017. Over

this period, the external debt service ratio is expected to absorb less than 10 percent of foreign earnings, while the debt to GDP ratio will be gradually reduced.

Foreign Amortisation Profile
(BDS \$ Millions)



For 2011, growth was provisionally estimated at 0.4 percent. Tourism long stay arrivals increased by 6.7 percent, but tourism output fell by 0.2 percent, primarily as a result of the 5.6 percent decline in average length of stay.



Arrivals from the United States and United Kingdom markets rose by 5.5 percent and 4.4 percent respectively. However, Canadian tourists contracted by 0.5 percent, an improved performance, given the 3 percent decline during the first half of the year. More affordable air travel boosted arrivals from the CARICOM region, with visitors from Trinidad and Tobago increasing by 35 percent.

TOURIST ARRIVALS BY MAJOR SOURCE MARKETS

JANUARY - DECEMBER

MAJOR MARKETS			Actual	%
	2010	2011	CHG	CHG
U.S.A	134,969	142,458	7,489	5.5
Canada	72,351	71,970	-381	-0.5
U.K	181,054	189,107	8,053	4.4
Germany	7,260	8,404	1,144	15.8
Other Europe	23,962	27,020	3,058	12.8
Trinidad & Tobago	27,259	36,850	9,591	35.2
Other Caricom	58,923	64,201	5,278	9.0
Brazil	2,350	4,842	2,492	106.0
Other Countries	24,052	23,052	-1,000	-4.2

TOTAL ARRIVALS	532,180	567,904	35,724	6.7
JANUARY - DECEMBER				
TOTAL CRUISE PASSENGERS	664,747	619,054	-45,693	-6.9
TOTAL CRUISE CALLS	391	391	0	0.0

Source: BSS & Immigration Department

Following a 4.6 percent increase in 2010, cruise arrivals declined by approximately 6.9 percent for the year. Based on the estimated reduction in cruise ship calls, this decline is expected to continue into 2012.

Select Registered IBFS Companies (2000-2011)

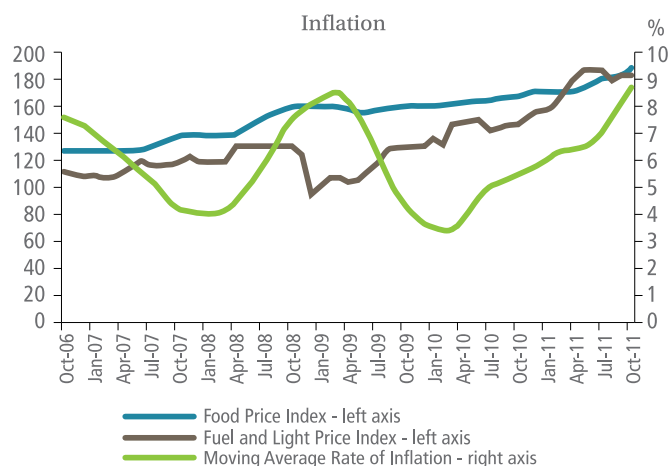


Output contracted in manufacturing, sugar and non-sugar agriculture. In contrast, the number of licensed International Business and Financial Services (IBFS) companies increased by approximately 4.2 percent.

The public sector was constrained in stimulating the economy by the need for fiscal consolidation but the non-traded sector grew by an estimated 1.2 percent, led by expansions in construction, business and other services, as well as transportation, storage and communications.

Prices and Unemployment

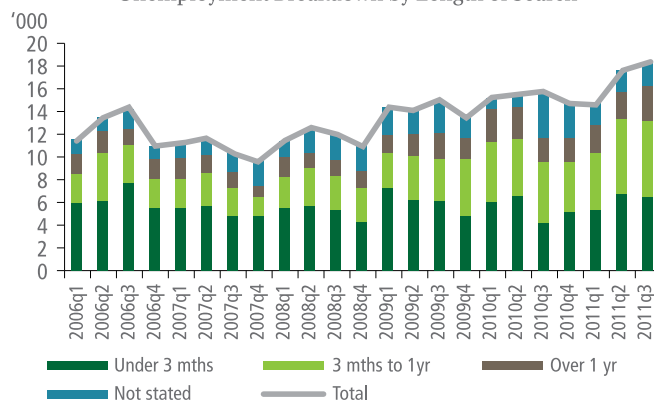
The domestic inflation rate moved to 9.4 percent in December 2011. This reflects the pass-through effects of the increase in indirect taxes in late 2010 together with higher import prices, particularly for fuel, which was up by 36 percent. Imported food prices, especially for rice and corn, increased by around 8 percent and 3 percent, respectively.



The lingering effects of the international recession have dried up business cash flow and reduced profitability, leading to additional job losses. Consequently, unemployment continued to rise during the year, with the rate increasing from an average of 10.8 percent at the end of 2010 to an average of 11.2 percent for the same period of 2011.

Industry estimates from the Barbados Statistical Service indicate that job losses were registered mainly in finance and professional services. Unemployment claims have increased steadily, as has the average period of job searches for persons seeking employment.

Unemployment Breakdown by Length of Search

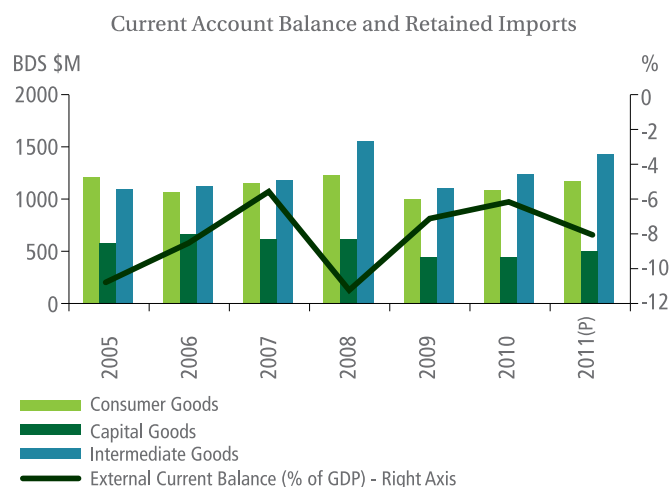


Balance of Payments

The loss in foreign reserves was estimated at \$15 million, compared to the \$53 million decline registered in 2010. Net capital inflows were marginally above the level of 2010 despite a 31% fall in real estate inflows. However, there were compensating reductions in outflows for trade advance repayments and deposits placed abroad. Receipts from the energy-based policy loan from the Inter-American Development Bank (IDB) (\$140 million), were less than the market and policy-based borrowings of US \$200 million in 2010, leading to a decline in public capital inflows.

The current account deficit was 8.6 percent of GDP, compared to 6.1 percent in 2010. This deterioration was mainly due to the impact of higher international oil and commodity prices which pushed up imports by 15%. The volume of imported fuel products decreased by 5 percent, but the fuel import bill rose by about \$245 million. Imports of machinery increased by \$92 million, partly due to the construction of a new brewery. In addition, increases were recorded for food and beverages (\$48 million), fats and crude materials (\$15 million) and iron and steel (\$11 million).

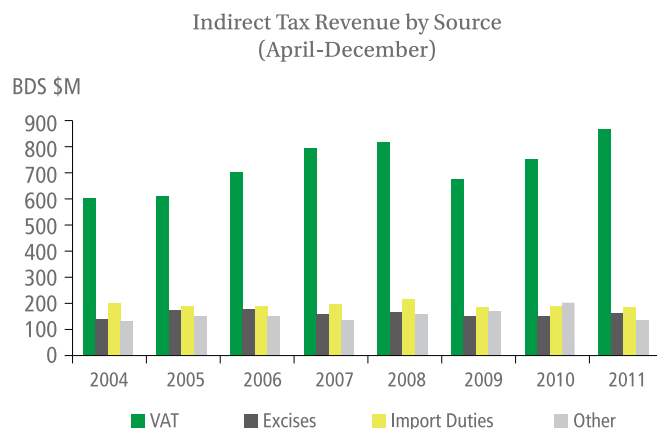
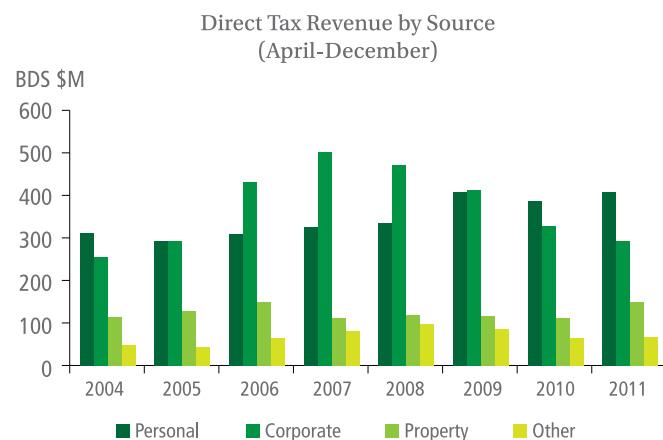
Tourism continued to be the main foreign exchange earner, accounting for 38 percent of the total. However, tourism expenditure fell by an estimated 6 percent, compared to a 3 percent decrease for 2010. Foreign inflows from other services, inclusive of international



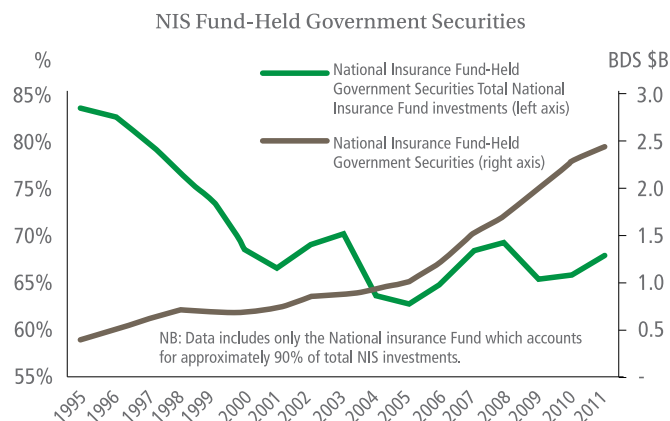
businesses, accounted for 23 percent of inflows, while exports of chemicals, rum and sugar contributed 2.8 percent, 1.3 percent, and 0.4 percent, respectively.

The Public Sector

As a result of the lower than anticipated economic activity, the Government's MTFs was revised to target a balanced budget by FY2016/17. For the April to December period of 2011, collections of value-added tax (VAT), personal and excise tax receipts grew by 19 percent, 5 percent and 14 percent, respectively owing mainly to the 2010 tax measures. Expenditure remained below the previous year's level, as transfers to public institutions and capital expenditure fell by 10 percent and 17 percent, respectively.



Similar to the previous year, Government continued to rely primarily on domestic sources to fund its operations. As there was no capital market borrowing this year, net external financing was lower than in 2010, representing 6 percent of Government's required financing. Government received a second energy policy-based loan from the IDB, but project funds remained relatively low. As in 2010, private non-bank entities, particularly insurance companies, supplied a substantial portion of the required financing (39 percent), while the Central Bank provided 4 percent. Net financing from commercial banks represented 15 percent of total financing. However, this figure was boosted by Government's \$130 million refinancing of the loan for the Judicial Centre. Direct lending by the National Insurance Scheme (NIS) to Government was estimated at \$167.1 million (27



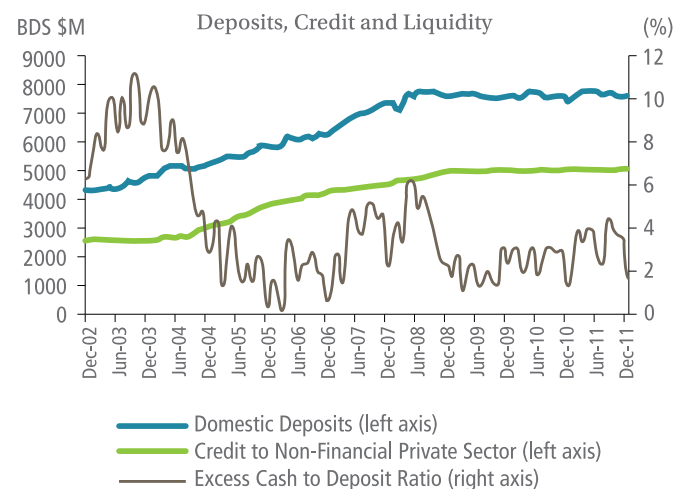
percent of required financing). The NIS also provided credit of \$136 million, to statutory bodies bringing its total financing of the public sector almost on par with the previous year.

While the amount of Government securities held by the NIS Fund has risen steadily, as a percentage of its total investments, these holdings have declined from over 80 percent in the late 1990s, to an estimated 68 percent in 2011.

Financial Indicators

The commercial banking system remained liquid during 2011, the result of modest deposit growth and subdued loan demand. Banks remained stable and well capitalised, with capital adequacy ratios reaching historic highs at the end of December 2011. However, as a consequence of a rise in 'substandard' loans, non-performing loans (NPLs) were similar to the 10 percent

figure recorded in 2010. The NPL ratio continued to be negatively impacted by two large loans extended to the hotel sector. Excluding these particular loans, the level of NPLs was closer to prudential norms.



Operations

1. Macroeconomic Stability

Economic Policy

In 2011, macroeconomic policy focused on achieving the level of fiscal consolidation needed to maintain a sustainable level of foreign reserves. The protracted slowdown in economic activity led the Government to revise the targets under the MTF5 so as to provide a greater balance between the pace of fiscal consolidation and the necessary stimulus to facilitate economic recovery.

In the context of weak private sector credit demand and relatively favourable liquidity conditions, the Bank was more accommodative in its lending to Government than usual. This was intended to be temporary, only to allow a process of smooth fiscal consolidation.

As in 2010, the Bank did not alter its main policy instruments. The discount rate and minimum deposit rate remained at 7% and 2.5%, respectively, while the cash and security reserve requirements on domestic and foreign deposits for banks and non-banks were also unchanged.

The Bank's principal policy concern during 2011 related to the efficiency of the foreign exchange market. In particular, the Bank was concerned with what appeared at the time to be a deepening trend of a low level of inter-bank trading and sluggish foreign exchange sales to the Bank. After a careful examination of the operations of the market, in August 2011 the Bank amended its margins on foreign exchange transactions,

with the intent of encouraging increased inter-bank trading in the foreign exchange market and providing a steady flow of foreign exchange to the Bank. More specifically, the Bank implemented a 5 percent surrender requirement on authorised foreign exchange dealers' weekly purchases of foreign exchange from their customers, and reduced its foreign exchange margins on sales to authorised dealers. As a result, selling rates to customers for the major traded currencies were also lowered. These changes were supported by improvements to the Bank's monitoring of the foreign exchange market and increased communication with dealers, through the circulation of a daily foreign exchange trading report.

The Bank had established further exchange control liberalisation as a priority for 2011, but this initiative was put on hold, owing to weaker than anticipated growth in foreign exchange earnings and uncertainty about the timing of capital inflows.

Institutional Arrangements

The Bank continued to meet monthly with senior officials of the Ministry of Finance and Economic Affairs to review and assess key macroeconomic developments.

In addition, the Bank was represented on the National Debt Advisory Committee and the Technical Debt Management Committee which have been established to strengthen the debt management capacity in the Ministry of Finance, and to improve coordination between the various agencies that manage Government's debt. In 2011, a draft medium-term debt strategy was prepared.

Its aim is to ensure Government's financing needs and payment obligations are met on a timely basis, at the lowest possible cost and with an acceptable level of risk. Details of this plan are expected to be finalised early in 2012, and implemented from FY 2012/13.

Given the critical role of the tourism sector and the need to expand market surveillance, the Bank is represented on a Tourism Working Group, which was established to ventilate and discuss critical issues concerning the sector. The group comprises officials from the Bank, the Barbados Hotel and Tourism Association, the Barbados Statistical Service, the Barbados Tourism Authority, the Ministry of Tourism and the Caribbean Tourism Organisation.

2012 PRIORITIES

- Enhance the framework for the setting of monetary policy.
- Monitor the performance of the newly implemented foreign exchange policy, to ensure it maintains its relevance.

2. Financial Stability

Financial System

At year-end, the Bank was responsible for regulatory oversight of seven commercial banks and a bank holding company, together with 13 domestic near-banks and 45 international banks. During the year, two new international banks were licensed, while two international banks completed the wind-up process. Three new licence applications were pending, two under Part III of the Financial Institutions Act and one under the International Financial Services Act.

LICENSED FINANCIAL INSTITUTIONS

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

Source: Central Bank of Barbados

Despite the ongoing instability in international financial markets and difficult economic conditions at home, the Barbadian banking system remained stable throughout 2011. A rise in non-performing loans at commercial banks generated some concern in 2010 and again in 2011, spurring the publication of papers in each issue of the Bank's 2011 Economic Review that examined the cause and significance of this trend. These studies supported the view that the level of credit risk did not pose a threat to the stability of the system. Indeed, during this time, the level of capital adequacy continued to significantly exceed statutory requirements. Net income fell below pre-recession levels, because of increased provisioning, but commercial banks remained profitable.

In April 2011, Government established the Financial Services Commission (FSC) to oversee the regulation of non-bank financial institutions. This entity, working in conjunction with the Central Bank, is expected to strengthen prudential oversight of the entire financial system. As part of this effort, the FSC, the Barbados Deposit Insurance Corporation and the Bank created a Financial Oversight Management Committee (FOMC) to monitor developments in the financial system.

The Bank participated in efforts to resolve the issues pertaining to CLICO Life Insurance Company. Significant progress was made with the submission of the Judicial Manager's report to the Court, but by year-end this matter was still outstanding.

Financial Stability Unit (FSU)

The Bank's recently created Financial Stability Unit (FSU) prepared its first Financial Stability Report (FSR)¹. The FSR analyses recent trends in the financial system and provides the results of models used by the Unit to evaluate the level of system-wide credit and contagion for Banks and other financial institutions.

Banking Regulation Framework

The regulation and supervision of institutions licensed under the Financial Institutions Act and the International Financial Services Act remain critical to the Bank's mandate of maintaining and promoting financial stability. The Bank continued to promote an enhancement of its regulatory framework through its initiatives to improve the scope of prudential reporting, its communication of supervisory policies and the consolidation of its implementation of risk-based supervision.

The Bank collaborated with other domestic regulators and stakeholders on various national issues, including the Organisation for Economic Cooperation and Development (OECD) Global Forum Peer Review and Financial Stability Board initiatives. During 2011, the Bank also maintained a close relationship with regional and international regulatory bodies. Cooperation and collaboration with local, regional and international regulatory agencies are supported by Memoranda of Understanding. In May, the Bank was a signatory to a revised Multilateral Memorandum of Understanding for information sharing among regional banking regulators.

Policy Development

During 2011, the Bank furthered its efforts towards the implementation of Basel II/III, with a focus on the 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 and documentation on the Bank's supervisory framework was finalised for sharing with the industry in 2012.

As part of the broader implementation plan, a Reporting Package and Survey for the implementation of the Market Risk Amendment to the Basel I framework was near completion and set to be shared with the industry in 2012. The Bank also chaired a Working Group of regional regulators on aspects of Basel II/III.

The revised Money Laundering and Financing of Terrorism (Prevention and Control) Act was proclaimed on November 11, 2011. Consequently, the Bank issued revised Anti-Money Laundering/Combating Terrorist Financing Guidelines. Work on revisions to the Financial Institutions Act was near completion by year-end.

Risk-Based Supervision

The ongoing work of risk-based supervision continued during the year with thematic credit risk inspections of domestic licensees. Additionally, there were reviews of the treasury and regulatory reporting functions for a major domestic licensee and assessments of aspects of the corporate governance practices of international banks.

International Financial Services

The Bank maintained collaboration with stakeholders in the international financial services and business sector. Meetings were convened with the Barbados International Business Association 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 competitiveness of the sector.

¹ This report was published on January 27, 2012.

2012 PRIORITIES

- Enhance further the regulatory and supervisory framework for banking institutions.
- Accelerate the preparatory work on Basel II implementation, in conjunction with regional counterparts.
- Contribute to national preparedness for upcoming Country assessments (e.g. FSAP, Mutual Evaluation, OECD Global Forum Peer Reviews).
- Extend the currently limited coverage of the Financial Stability Unit in the area of credit union and insurance companies with the assistance of the FSC.
- Improve understanding of the linkages between risk assessment and the macroeconomic models.

3. Money, Credit and Capital Markets

Liquidity Management

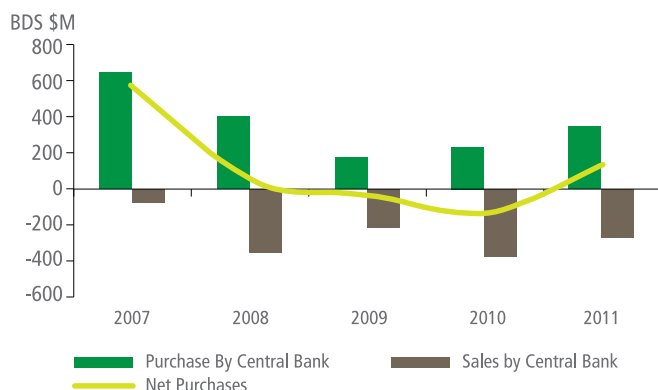
There were again no borrowings by the commercial banks from the Bank, nor was there any activity related to collateralised borrowing at the Bank's discount window in 2011. The sole pre-existing loan matured during the second quarter, and was not renewed. However, as liquidity in the banking system tightened during the second half of the year, the Bank purchased treasury bills from banks and participated in primary issues of treasury bills to ensure financial markets remain stable. As a precautionary measure related to the uncertainty of flows to Government, the Bank temporarily raised its internally set limit on its holdings of primary Government securities from \$120 million to \$250 million until March 31, 2012 when the situation will be re-evaluated.

In 2011, commercial banks sold \$30 million in treasury bills to the Bank, compared to \$40 million the previous year. However, with the change in policy, the Bank was more active in the primary market, purchasing \$242.6 million in treasury bills on the primary market during the year. At year-end, the Bank's holdings of treasury bills obtained at Treasury Bill auctions, together with existing holdings of government paper, were within the approved limit.

Trading in Foreign Currencies

During 2011, the Bank was a net purchaser of foreign exchange from the banking system. Higher purchases of foreign currency from banks, together with lower sales of foreign exchange to banks, converted net sales of foreign exchange to the banking system of \$133.5 million in 2010 to net purchases of \$132.2 million in 2011. Purchases of foreign currency from banks recovered to reach \$407.8 million, of which foreign currency notes were \$93.1 million. Purchases were seasonal, with most of the buying taking place in the first quarter.

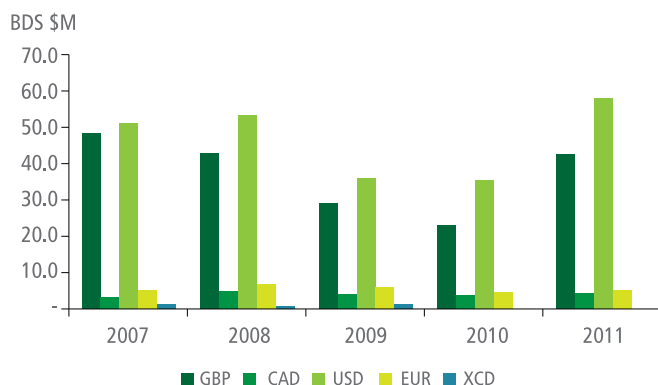
FX Transactions between Central Bank and FX Dealers



Repatriations

The total value of foreign notes repatriated in 2011 amounted to \$109.5 million, up from \$66.4 million the previous year. This higher level of repatriations was in line with those of 2007 and 2008. The United States dollar and the British Pound were the principal currencies repatriated, accounting for \$57.9 million and \$42.4 million, respectively.

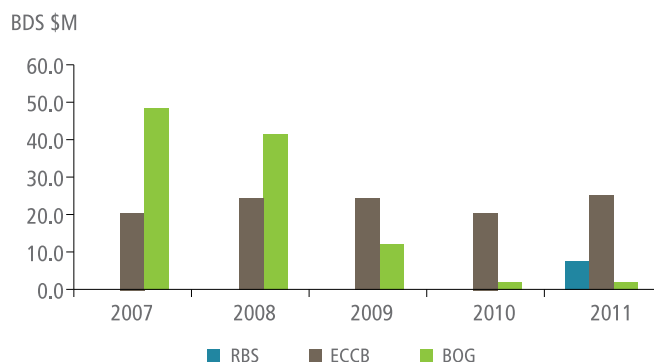
Foreign Notes Repatriated 2007-2011



Redemption of Barbadian Banknotes

The Bank repurchased \$34.2 million in excess quantities of Barbadian banknotes held by overseas institutions. This represented a modest increase from the \$29.7 million recorded the previous year. The Bank of Guyana remained the main source of redeemed Barbadian currency.

Redemption of Barbados Notes 2007-2011



Government Bond Market

The Bank was active in the issuance of Government Savings Bonds and Barbados Government Treasury Notes and Debentures on behalf of Government. Three issues of Treasury Notes and five issues of Debentures with a value of \$550.0 million were offered to the public in maturities from three years to 20 years at a weighted average coupon of 6.61 percent. The increase in the average coupon on new debt from 6.41 percent in 2010 reflected a greater share of longer-dated securities to satisfy investor demand. Of the debt issued, \$250.0 million accounted for maturing debt. By year-end, \$556.5 million of securities, including securities issued before 2011, were sold. This reflects a reduction in the net issuance of new debt from \$445.3 million to \$306.5 million.

Two Savings Bond issues totalling \$15.0 million were offered to the public, of which 77 percent was allocated by year-end. In addition, \$9.3 million from prior Savings Bonds issues were also allocated during the year. Savings Bonds redemptions totalled \$20.1 million, bringing the outstanding bonds to \$100.8 million, compared to \$100.0 million a year earlier.

Housing Credit Fund

Activity for the Housing Credit Fund (HCF) as measured by new loan approvals slowed during 2011. Loans outstanding declined to \$124.5 million as principal repayments of \$9.5 million exceeded disbursements which were twice as much as in the previous year.

However, this was still well below its 2008 peak. The fund remained profitable and the key performance indicators are set out in the table on HCF operations.

KEY INDICATORS OF HCF OPERATIONS (\$MILLION)					
Indicators	2007	2008	2009	2010	2011 (p)
Loan Approvals	9.8	16.0	4.0	4.5	3.5
Loan Disbursements	9.6	11.5	7.7	4.0	8.0
Principal Repayments	7.7	8.2	7.0	10.3	9.5
Loans Outstanding	128.7	131.6	132.3	126.0	124.5
Net Income	3.9	3.9	3.9	3.9	4.0
Capital Inflows	0	0	0	0	0
Net Worth	141.4	145.2	149.2	153.5	158.7

Source: Central Bank of Barbados

Export Credit and Guarantee Schemes

The Bank sought to encourage utilisation of its schemes that provide support for the private sector. However, these efforts elicited very little response. Following a modest improvement in 2010, activity in the Credit Guarantee Scheme for small and medium-sized enterprises contracted during the year. At the end of 2011, there were 23 guarantees outstanding with a maximum liability of \$1.4 million as compared to 34 guarantees with a maximum liability of \$1.9 million at the end of 2010. The 2010 figure was significantly higher owing to the provision of ten (10) guarantees to the Barbados Agency for Micro Enterprise Development Limited (Fund Access) for the first time. The 2011 figure also reflects significant cancellations of guarantees by one bank. Total lines of credit decreased from \$2.4 million to \$1.8 million during the year.

As in 2010, no export credit insurance coverage or export finance guarantees were requested.

In August 2011, the Trade Receivables Liquidity Facility was officially launched by the Ministry of Industry, Small Business and Rural Development in conjunction with the Bank. The facility was established to ensure that small contractors received payment for goods or services provided to Government in a timely manner. The Bank

has also established a Tourism Guarantee Facility to facilitate refurbishment of the tourism sector. However, at year-end, the Bank had provided no guarantees under these new schemes.

Industrial Credit Fund

The Industrial Credit Fund (ICF) recorded an increase in the value of loan approvals and the level of disbursements recorded in 2011 as compared to 2010. The ICF approved six loan applications totalling \$13.3 million compared to six applications valued at \$10.4 million in 2010. The manufacturing sector accounted for \$6.9 million of the approvals while tourism and health services received \$5.9 million and \$0.5 million, respectively. The balance of loans approved but undisbursed was \$16.5 million at year-end.

No capital contributions were received during the year. The net income for 2011 is estimated to be \$2.4 million, compared to \$2.2 million in 2010. The ICF's net worth is expected to be approximately \$127.3 million for 2011.

KEY INDICATORS OF ICF OPERATIONS (\$MILLION)				
Indicators	2008	2009	2010	2011 (p)
Loan Approvals	14.5	10.7	10.4	13.3
Loan Disbursements	16.0	7.5	7.3	10.4
Principal Repayments	13.8	10.9	6.2	13.3
Loans Outstanding	44.0	40.6	41.6	38.7
Net Income	2.2	2.2	2.2	2.4
Capital Inflows	5.9	5.9	2.6	0
Net Worth	112.0	120.0	124.9	127.3

Source: Central Bank of Barbados (p) Provisional

2012 PRIORITIES

- Implement dematerialisation of Government securities.
- Pursue efforts to stimulate use of the Bank's private sector targeted schemes.

4. Currency and Payments Systems

Currency in Circulation

The value of currency in circulation remained relatively unchanged, ending the year at \$651.7 million, compared to \$648.7 million the year before. In 2011, the Bank issued new notes with a face value of \$297.3 million, an 8.3 percent decrease over 2010. Of the total notes issued (including re-issuable notes) the fifty dollar remained the most issued denomination. The \$5 note was the least issued denomination during the year, as it has been since 2008.

Counterfeiting

Barbados' counterfeit rate remains relatively low, in part because of the Bank's active counterfeit prevention programme. In 2011, the Bank extended its training in respect of note recognition to more retailers and school children and held well-received "Know Your Money" workshops and seminars for the general public, members of the Royal Barbados Police Force (RBPF), financial institutions and government agencies. The Bank carried out surveys to gauge the level of knowledge about the design and features of Barbadian notes. Training sessions were offered upon request, and flyers and other public education material were distributed to commercial banks and other organisations for internal training and further dissemination.

Internally, the Bank sought to bolster the skills of members of the Currency Division through exposure to internal and external training, including the latest in anti-counterfeiting strategies used by central banks worldwide. The Bank also strengthened its relationship with the RBPF, holding periodic meetings to share information on the level of counterfeiting, on the sources of the fake notes, and on emerging trends.

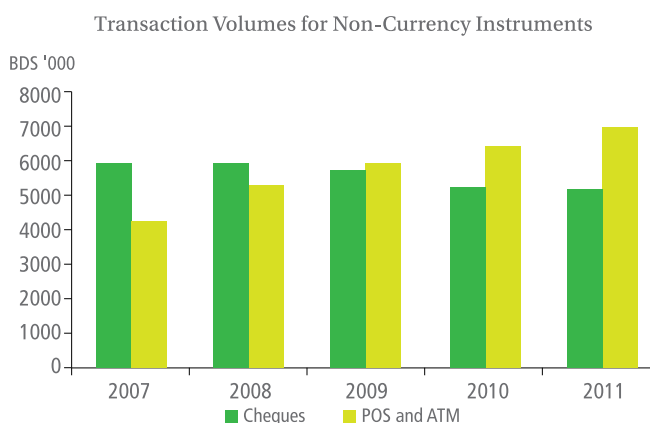
The results of the survey and feedback from focus groups and the opinions of other stakeholders, including the visually challenged, formed the basis for deciding about a new family of banknotes, which is expected to be introduced into circulation in 2013.

Currency Consultancy

The Bank continued its project to increase efficiency and improve security for its currency operations. Work is scheduled to be done in phases and is expected to be completed in 2014.

Automated Systems

The throughput of the Automated Clearing House continued to increase during 2011. The average number and value of cheques and direct payments cleared monthly was relatively stable, but the number of Point of Sale and Automatic Teller Machines transactions rose by 15.5 percent and 5.1 percent, respectively.



Towards the last quarter of 2011, work was restarted on the upgrade to the Central Bank Real Time Gross Settlement (CBRTGS) system, which was designed to process large-value transactions. This upgrade is expected to go live early in 2012.

2012 PRIORITIES

- Implement phased reorganization of currency operations to facilitate enhanced efficiency and security.
- Facilitate the opening of a currency museum and gift shop
- Introduce straight-through processing of Central Bank transactions.
- Implement upgraded RTGS system.

5. Corporate Governance

Board of Directors

The Board of Directors (Board) of the Bank, pursuant to Section 10 of the Central Bank of Barbados Act Cap. 323 C of the Laws of Barbados has overall responsibility for the policy and general administration of the Bank.

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

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 consistent with its authority to make Regulations made under

the Central Bank of Barbados Act. In 2011, the Board approved revisions to the Central Bank of Barbados Pension Scheme in accordance with the provisions of the recently proclaimed Occupational Pension Benefits Act 2003.

Composition of the Board

The Board consists of the Governor as Chairman, the Director of Finance 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.

Sub-Committees of the Board

There is one sub-committee of the Board, namely the Audit Committee. The Audit Committee is charged with addressing matters pertaining to the internal audit functions of the Bank. The Audit Committee also reviews the draft audited financial statements of the Bank in conjunction with the external auditors prior to the said statements being approved by the Board.

Apart from the Audit Committee, a member of the Board 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 two months must elapse between one meeting of the Board and the next meeting. Ordinarily the Board meets 11 times annually, as it did in 2011.

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.

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.

Central Bank of Barbados Act

During 2011, the office of the Chief Parliamentary Counsel was engaged in the drafting of a revised Central Bank of Barbados Act. At year-end, the Bank was reviewing this draft.

2012 PRIORITIES

- Implement the revised Central Bank of Barbados Act.

6. Internal Audit and Risk Management

During 2011, the Audit Committee of the Board approved initiatives to strengthen the internal audit function in the Bank. In this regard, a process to standardize the conduct of engagements was developed and implemented to facilitate compliance with international standards.

Training in enterprise risk management and risk management for central banks was undertaken during the year to improve understanding of enterprise risk management practices in central banks.

The Bank continues to identify and implement measures to mitigate risks, particularly with respect to the physical plant. To this end, the Bank has been upgrading the facility in a phased manner. Critical systems such as the air-conditioning air distribution apparatus were replaced with more environmentally-friendly and safer components. The building management system, which monitors and manages various systems, was also upgraded. A new computerised maintenance management system was installed to enhance the preventative maintenance programme. These upgrades will assist with the creation of a green, safe and comfortable environment.

Business Continuity Management, which is a significant aspect of operational risk management, remains a top priority for the Bank. The Bank has initiated programmes to enable a speedy resumption of service, in the event of a major incident. The Bank has continued to enhance Business Continuity awareness and provide training programmes for staff. In the future, the Bank intends to involve other financial institutions to plan and execute simulations.

2012 PRIORITIES

- Continue to strengthen the Bank's Business Continuity Planning Process through increased training and simulation exercises for staff.
- Continue the retrofitting and implementation of green programmes to ensure a work environment conducive to high productivity.

7. Information Technology

In 2011, the Bank maintained efforts to improve its operational efficiency through the use of cutting-edge technology in a secure environment. To this end, the Bank:

- Implemented a new Public Debt System which will facilitate the dematerialisation process once the legal infrastructure for such is finalised. The system can also enable straight-through processing where payments to holders of securities will pass through the Automated Clearing House or Real Time Gross Settlement System;
- Launched a project for the implementation of a new Human Resources Information System, which is expected to be completed by mid-year 2012. The new system offers several efficiency enhancements to the Human Resources department;
- Completed a number of key system upgrades; and
- Installed a new firewall to facilitate the move to greater teleworking.

The Bank's technology team also completed a number of projects pertaining to the greening of information technology. This refers to the study and practice of using information technology efficiently, including reduced energy usage. Some of the initiatives undertaken by the department pertain to the virtualisation of servers, widening the use of electronic data interchange with our external partners and creating more electronic linkages between our internal systems.

The Bank continued to focus on its information security programme, under the guidance of the Information Security Governance Committee, which has oversight of information security within the Bank.

2012 PRIORITIES

- Increased emphasis on business process improvements in new systems and continued emphasis on workflow and on web-based solutions that facilitate easier access to information for staff and the public.
- Continued implementation of greening IT initiatives through further server virtualisation, and expansion of electronic data interchange to non-bank financial institutions.
- Increased attention to IT security, including an assessment of the current security profile.
- Enhanced IT governance and risk management, ensuring a high level of redundancy in our mission critical applications.

8. Information Management

Approaching year-end, the Bank initiated a process to enhance the efficiency of its document management systems. Enterprise content management strategies, related to the digital capture, management, storage and preservation of the Bank's records will be introduced, with the first phase of this process scheduled for completion in 2012. This strategy is intended to reform the operations in the Bank's records management unit and over time to lead to improved operational efficiency and risk management.

To expand the access to electronic information, the 'Intelli. Net' interface - the internal website for library services -

was improved by expanding its search capacity across seven databases from a single search query. During the year, the digitalisation of the Bank's critical records continued and documents of special historical interest were placed on the Bank's website for public access.

2012 PRIORITIES

- Initiate a programme for the electronic storage and retrieval of the Bank's records.

9. Internal Partners

The Bank launched an HR Business Partnership initiative in 2011. This departure from traditional HR Management, takes HR Practitioners from behind their desks and out of their offices into the Bank to interact with employees in their respective environments. It is intended to build relationships with our Internal Partners, get to know them better and add value to the service that HR provides.

In addition, the Bank began to explore Talent Management as a vehicle to improve processes for recruiting, developing and retaining persons with the required skills, aptitude and attitude to meet current and future needs. While to some organisations, the focus of Talent Management is exclusive to a select group of 'high-talented' individuals, in the Bank this approach will advocate the view that all of our employees have talent, which should be identified and developed.

In 2011, the Bank devoted much of its efforts to crystallising and shaping the concepts and programmes which were initiated in the previous year. Career Streaming was introduced in every Department. This is a system through which promotion will be effected seamlessly when employees satisfy established criteria for their area of expertise.

The Bank developed a new Performance Management Manual, and a Joint Working Committee comprising representatives from the Bank and its Employees' Representatives, was established to work on the governance and technical requirements. This new system seeks to reward both teamwork and individual effort, in support of the Bank's thrust and direction.

The Bank officially launched its Emotional Intelligence initiative in the fourth quarter of the year. Under the theme, "Reach", 27 EI Champions pledged their commitment to advancing the EI principles and behaviours and embedding them into the Bank's culture.

The launch showcased some of the Bank's employees' performing talents of singing (Ross Simmons), poetry (Kimberley McDonald), choreography (Janelle Ward) and dance (Janelle Ward, Lydia Gill, Sheina Best, and Sheraline Millington). It also featured the winning EI

Logo by Nina Smith, and the winning EI Jingle which was performed by its composer, André Burgess.

During the year, the Bank also focused on developing the EI competence of the senior management and the EI Champions.

Staff Movements

Six persons joined the Bank's permanent establishment during the year, while two persons resigned and six persons retired from the Bank. At year-end, the staff complement was 281 of which 246 were permanent employees.

The retirees included Mr. Frank Blades, Deputy Chief of Security; Mr. Jeffrey Allamby, Chief Messenger; and Mrs. Magna Kirton, Accounting Officer, each of whom served the Bank for over 30 years.

Promotions

13 persons were promoted during the year as follows:
Mr. Harold Codrington from a post of Adviser to Governor to Deputy Governor;
Miss Debbie Briggs from Senior Operations Officer to Deputy Director, Banking, Currency and Investments;
Miss Wilma Belgrave from Senior Examiner to Assistant Director, Bank Supervision;
Miss Tamara Hurley from Senior Examiner to Assistant Director, Bank Supervision;
Ms. Heather Grimes from Human Resources Administrator to Senior Human Resources Administrator;
Miss Lisa Drakes, Mr. Alvon Moore, Mr. Kester Guy, and Miss Mahalia Jackman, from Economist to Senior Economist, Research and Economic Analysis;
Mrs. Michele Layne and Mrs. Sheraline Millington from Clerical Officer to Statistical Officer, Research and Economic Analysis;
Miss Catrina Forde from Secretary to Administrative Assistant, Internal Audit; and
Mr. Jeffrey Allamby from Messenger/Driver to Chief Messenger, Facilities Management.

Academic Achievements

During the year, Dr. Allan Wright was awarded the Doctor of Philosophy, Economics with the University of the West Indies (UWI), Cave Hill Campus while Miss Alicia Bascombe received the Master of Science, International

Business and Entrepreneurship (Distinction) from the De Montford University, United Kingdom.

Additionally, Miss Sheina Best, Miss Linda Boyce, Mrs. Jennifer Mason-St. Prix, and Miss Gail Best, were awarded Bachelor of Science Degrees by UWI, Cave Hill Campus.

Various staff members attended local seminars and conferences covering areas such as International Reporting Standards for SMEs, Labour Education in a time of Economic Difficulty, the Barbados Association of Office Professionals (BAOP) Annual Conference, while our in-house training focused on Presentation Skills.

Thirteenth Annual Awards & Recognition Ceremony

The 13th Annual Awards Ceremony took place at the Lloyd Erskine Sandiford Centre on Saturday, May 14, 2011. Forty-seven persons received awards, nine persons in the 10 and 15 year categories, three persons in the 20 year, six persons in the 25 year and 11 in the 30 year categories. Special mention must be made of nine persons who celebrated 35 years of service with the Bank: Ms. Jennifer Berrie-Marshall, Miss Octavia Gibson, Mrs. Terry Gittens-Jordan, Mrs. Arlette King, Miss Janice Marshall, Miss Gloria Oxley, Mr. Neville Pollard, Miss Judy Reynolds and Mrs. Clovene Roach.



Awardees at the Bank's Annual Awards and Recognition Ceremony

10. Bank's Outreach

The Bank maintained its concerted efforts to engage the public on economic and financial matters through its news conferences, publications, national speaking engagements, meetings with various interest groups and the hosting of conferences, workshops and seminars.

As another aspect of its public engagement and consistent with its philosophy of being a good corporate citizen, the Bank sponsored several arts events and contributed to an array of philanthropic activities.

Engaging Various Publics

The Bank re-launched its Economic Review as an on-line policy-based journal, with three issues being published in March, June and December 2011. The journal focuses on locally and regionally-based policy issues, with the initial areas examined being tourism, financial stability, international business, fiscal sustainability and foreign exchange markets.

During the year, the Bank released its quarterly reports on the economy and hosted four news conferences that

were streamed live on the Bank's website to discuss economic developments.

The Bank held a series of discussions on the state and performance of the local economy with the business community, including representatives from non-traditional areas such as the arts, health services and sports. At these sessions, the Bank garnered feedback on policy initiatives and perspectives on how the economic situation is impacting businesses.

Speaking Engagements

Senior officials of the Bank addressed various interest groups to explain various macroeconomic policy initiatives and decisions, the country's management of the economic crisis as well as the impact of the changing international financial architecture on the local financial services sector. Among the groups hearing from the Bank's senior officials in 2011 were the Lions Club, the Barbados Association of Investment and Financial Advisors (BARAIFA), the Human Resources Association of Barbados, the Barbados Association of Office Professionals, the Barbados International Business Association and the Social Partnership.



Governors meet in Barbados

Conferences

The Bank hosted several conferences during the year. The CARICOM Central Bank Governors meetings were held in May and November when the governors and heads of monetary authorities from across the region were updated on a regional project to produce a report on the stability of the Caribbean financial systems. They also discussed the region's economic performance, and reviewed reports on how global initiatives on financial stability have impacted financial centres in the Caribbean.

In addition to the deliberations, the central banks and monetary authorities signed a revised Memorandum of Understanding, signalling renewed commitment to the principles of information exchange and cooperation.

In November, the Caribbean Centre for Money and Finance (CCMF) convened the 43rd Annual Monetary Studies Conference under the theme **"Financial Architecture and Economic Prospects: Beyond the Crisis in the Caribbean"**. The conference, held over four days, provided a forum for the presentation and discussion of papers on topics, including financial stability, debt sustainability, economic growth and international business. The feature event was the delivery by former Central Bank Governor, Mr. Winston Cox of the 26th Adlith Brown Memorial Lecture, entitled **"The International Financial Architecture and its Application in the Caribbean"**.

This lecture honours the memory of the late Adlith Brown, a Caribbean regionalist, economist and former



Mr. Winston Cox as he delivered the Adlith Brown Memorial lecture

Co-coordinator of the Regional Programme of Monetary Studies, the forerunner of the CCMF.

The Launch of the International Monetary Fund's Regional Economic Outlook took place at the Frank Collymore Hall. At this event, the IMF's Deputy Director, Western Hemisphere Department, David Vega, presented the Fund's view on the performance and prospects for Caribbean economies. Following this, a team of local business and economic experts, namely, Dr. Justin Robinson, Head of Management Studies, UWI, Cave Hill Campus, Mr. Michael Mansoor, Chairman, CIBC FirstCaribbean International Bank, Dr. Denny Lewis-Bynoe, Director of Economics, Caribbean Development Bank and Governor Dr. DeLisle Worrell provided commentary on the IMF's perspectives.



Regional Economic Outlook Launch

The International Monetary Fund in association with the University of the West Indies organised a two-day conference in Barbados in January 2011 entitled, **"Options for the Caribbean After the Global Financial Crisis"**. Its objective was to solicit feedback from public and private sector academics on issues related to regional economic performance and policy challenges. A special Town Hall event was included to engage regional tertiary students as well as the general community.

The Bank organised the second Annual Financial Institutions Seminar, where key players within the domestic financial system met with Bank officials to discuss current issues and policy ideas, which are of mutual interest. Issues addressed at this year's seminar included the Foreign Exchange market policy, the Government securities market, as well as Barbados' interest rate policy. A regional perspective on financial sector issues was given by Mr. Ewart Williams, Governor of the Central Bank of Trinidad and Tobago.

A similar seminar was hosted to discuss issues related to the International Business and Financial Services sector. It allowed for the exchange of perspectives on the overall direction of this crucial industry and how best to position Barbados to respond to the challenges and opportunities that lie ahead. The 75 attendees also benefitted from a presentation by Bruce Zagaris, Partner with Berliner, Corcoran & Rowe and an adviser to Government on regulatory issues.

Sir Winston Scott Memorial Lecture

Barbadian-born professor of Electrical Engineering at the Massachusetts Institute of Technology, Professor the Honourable Cardinal Warde, delivered the 36th Annual Sir Winston Scott Memorial Lecture on the Topic, **"Business, Science and Technology Education Reform for the Caribbean"**. Professor Warde argued that science, technology and business are key to transforming the region's economies. In order for the transformation to take root, he posited that education should focus more on inculcating in the youth a spirit of entrepreneurship and a passion for science and technology. In addition to the lecture, Professor Warde participated in an hour-long televised discussion forum on the same topic.

University in the Community

The Bank teamed up once again with the Open Campus of the UWI to host a series of lunchtime lectures on research conducted by local university officials and other Barbadian and foreign experts in a number of areas. Eight lectures were held during the period and the topics ranged from mental health to economics and finance.

Schools' Outreach Programme

This annual lecture series for secondary schools covered topics related to the Bank's operations and economics and finance. More than 300 CXC and A-Level students participated in the lectures presented by the Bank's economists and other local experts.

Pan in the Plaza Extravaganza

Pan in the Plaza Camp and Extravaganza marked its 10th Anniversary in 2011 under the theme **"Celebrating with Steel - A Decade of Pan Education"**. A record 75 students participated in the three-week camp at which they were exposed to expert steelpan tutelage, pan-tuning demonstrations and stage performances. The campers staged a performance for their parents, peers and an audience of children from other camps, as well as participated in the Youth Pan Extravaganza. Also featured at the Youth Pan Extravaganza were **1688 Big Band, Alumni 10** (graduates from the 2010 programme) and the **Pan In The Plaza Combined Band**.



2011 Pan in the Plaza Extravaganza featuring the Combined Camp Band

Crop Over Visual Arts Festival

The Crop Over Visual Arts Exhibition, which the Bank has sponsored for 18 consecutive years, witnessed increased attendance in 2011. The event opened with a Crafts Symposium bearing the theme **"The Preservation of our Heritage Through Recycling"** and culminated with a series of exhibitions in Bridgetown. The main expo was held at the Grande Salle of the Central Bank.



Governor's wife presents award

The **Governor's Purchase Award**, the top prize in the 2011 Festival, was presented to Ireka Jelani for her sculpture **"Cluster & Bunching"**.

Frank Collymore Literary Endowment Awards

One of the highlights of the Frank Collymore Literary Endowment (FCLE) was the master class in playwriting for 12 Barbadian writers. International award-winning playwright, Lynn Nottage, conducted this class as well as delivered the keynote address on **"Why Theatre? Art Matters"** at the 14th annual FCLE awards ceremony.

In the 2011 literary competition, joint first prizes of \$8,000 each were awarded to Kerry André Belgrave for **"Rearranging Inner Rooms"** and Austin Yearwood for **"Bottle Dance"**. Anthony Kellman's **"South Eastern States' Stages"** received the third prize of \$4,000.

The Frank Collymore Hall's 25th Anniversary Celebrations

The Frank Collymore Hall marked its 25th anniversary with three nights of memorable and sophisticated musical performances dubbed **"City Nights 2011 - A Season of Music"**. The celebration featured an array of the island's best talent. Opening the series was the **"1688 Orchestra"**.

On the second night, the Barbadian *femmes fatales* of song – the sultry-voiced Carole George, the irrepressible Marisa Lindsay, the soulful Paula Hinds and the dynamic Tamara Marshall – teamed up for **"Ladies Night"** with bandleader Ricky Aimey.

The Season climaxed with a **"Classical Night"** where internationally trained classical singer, Dionne Timothy, performed alongside award-winning pianist, Marilyn Smith. The Barbados Chamber Orchestra and flautist, Dexter Norville closed the show.



Restored Masonic Lodge Building

Restoration of the Masonic Lodge

Renovations on the historic Masonic Lodge were almost completed during the year. The Bank is expected to take possession of the structure early in 2012. The building, located on Spry Street, will then be retrofitted to accommodate an art gallery, exhibits of old Bridgetown and a numismatic museum. The Masonic Lodge, the original site of Harrison College, was built in the 18th Century. The restoration of the building is expected to significantly add value to Bridgetown's UNESCO World Heritage designation.

Philanthropy

The Bank's support for benevolent activities in the country was sustained in 2011. Several non-governmental organisations and other charitable causes were the beneficiaries of monetary support, as well as discounts and/or waivers of fees for use of the Bank's facilities, namely the Frank Collymore Hall and the Grande Salle.



Miss Novaline Brewster, Public Affairs Officer and Mr. Harold Codrington, Deputy Governor, flank the recipient of the 2011 Central Bank of Barbados scholarship, Miss Danielle Bynoe.

Scholarships

Ms. Danielle Alycia Bynoe, a second-year student at the University of the West Indies Cave Hill Campus, was the proud recipient of the Bank's scholarship for outstanding performance in Economics and Mathematics. Since 1997, the Bank has been awarding this scholarship to Barbadian students at the Cave Hill Campus.

2012 PRIORITIES

- Celebrate the Bank's 40th Anniversary.

11. International Relations

The Bank continued to place high priority on maintaining good relations with its many international publics.

Latin American Centre for Monetary Studies (CEMLA)

During May, the Bank succeeded the Central Bank of Trinidad and Tobago as the CARICOM representative on CEMLA's Board of Governors. The Bank attended meetings of CEMLA's Board and Assembly that were held in Cartagena, Colombia (in May) and Washington, D.C., (in September), on both occasions presenting papers on the Caribbean perspective on global financial stability. During July, the Bank was also represented at the second bi-annual meeting of CEMLA's Committee of Alternates, which functions as Deputies to the Board of Governors.

Financial Stability Board (FSB)

Close contacts were maintained with the FSB with a view to preventing Barbados' IBFS sector from attracting negative publicity. To this end, in March, Barbados complied with the FSB's request for Detailed Assessment Reports from the 2002 and 2008 Financial Sector Assessments. The Bank managed the transmission of the information within the agreed timeframe.

During August, the FSB formally established its Consultative Group for the Americas and Barbados was invited to be a member. (Other Anglophone participants being the Bahamas, Bermuda, the British Virgin Islands, the Cayman Islands and Jamaica). The Minister of Finance appointed the Governor of the Bank to represent Barbados on this body and he attended its inaugural meeting in Mexico City in December.

International Monetary Fund (IMF)

The Bank participated in both the Spring and Annual Meetings of the International Monetary Fund. During the latter, which took place in Washington, D.C. in September, the Bank met with the region's Executive Director and a number of other Departments mainly to discuss financial and statistical issues as well as the reform process at the

IMF. The Annual Meetings also afforded the opportunity for interactions with Commonwealth Central Bank Governors, the Commonwealth Secretariat, the World Bank, the rating agencies and commercial banks.

Office of the Superintendent of Financial Institutions

A team from the Bank travelled to Canada in October to attend meetings with the Office of the Superintendent of Financial Institutions and the Bank of Canada to discuss aspects of the Canadian financial system, joint regulatory concerns and other supervisory issues. The team also met with Canadian banks in Toronto, including officials of Scotiabank, CIBC, Royal Bank, Bank of Montreal and Toronto Dominion Bank to discuss their view of the Barbados market, their strategic model and expansion strategies. Talks were also held with the Chairman of BIBA Canada.

Anti-Money Laundering

The Bank remained active in international fora such as the Caribbean Financial Action Task Force and the Group of International Finance Centre Supervisors (formerly the Offshore Group of Bank Supervisors) where issues pertinent to global standards and international financial centres are discussed.

Caribbean Association of Debt Managers

Mrs. Michelle Doyle-Lowe was elected as Vice President of the newly formed Caribbean Association of Debt Managers (CARADEM). This group is intended to strengthen and improve the effectiveness of public debt management across the region, by supporting the technical capability of debt managers through information sharing and training.

Publications List

Belgrave, Anton, and Jason LaCorbinière, "A Note on the Manufacturing Sector in Barbados", *Central Bank of Barbados Economic Review*, 2011, Vol. XXXVII, Issues 1&2, pp. 4-22.

Browne, Rudolph, and Tracy Maynard, "An Analysis of the Barbadian Student Enrollment at the University of the West Indies, Cave Hill Campus and the Cost to the Barbadian Government", *Central Bank of Barbados Economic Review*, 2011, Vol. XXXVII, Issues 1&2, pp. 10-15.

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Jackman, Mahalia, and Sheraline Millington. "Barbados' Human Development Index", *Central Bank of Barbados Economic Review*, Vol. XXXVII, Issues 1&2, pp. 15-18.

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Developing States: A Revealed Comparative Advantage Approach", *Anatolia*, Vol. 22, Issue 3, pp. 350-360.

Jackman, Mahalia, and Sherry-Ann Mayers "Investigating the Business Cycle Properties of Tourist Flows to Barbados", *Journal of Public Sector Policy Analysis*, Vol.5, pp. 3-21.

Jackman, Mahalia, "Money Demand and Economic Uncertainty in Barbados", *Empirical Economics Letters*, Vol. 5, No. 5, pp. 440-447.

Jackman, Mahalia, and Kevin Greenidge "Perceptions on the Global Crisis and the Caribbean: The Impact, Policy Responses and Way Forward", *Central Bank of Barbados Economic Review*, 2011, Vol. XXXVII, Issue 3, pp. 55-76.

LaCorbinière, Jason, Troy Lorde and Brian Francis, "Offshore Barbados: A Critical Analysis", *Money Affairs*, 2011, June.

Lowe, Shane, and DeLisle Worrell "International Business and Financial Services Centres in the Caribbean", *Central Bank of Barbados Economic Review*, 2011, Vol. XXXVII, Issue 3, pp. 23-45.

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Greenidge, Kevin, Lisa Drakes and Roland Craigwell, "Causality between Debt and Sovereign Credit Ratings using Panel Tests", *The Empirical Economics Letters*, Vol. 10, No. 10.

Griffith, Ronnie, and Alvon Moore, "Feasibility of Condominiums as a Means of Accommodation to the Barbados Tourism Industry and their Contribution to the Development of the Barbados Economy", *Journal of Public Sector Policy Analysis*, Vol. 5, 2011, pp. 95-119.

Guy, Kester, "Non-performing Loans", *Central Bank of Barbados Economic Review*, 2011, Vol. XXXVII, Issues 1&2, pp. 7-9.

Guy, Kester, and Anton Belgrave, "Fiscal Multiplier in Microstates: Evidence from the Caribbean", *International Advances in Economic Research*, Volume 18, Issue 1 (2012), Page 74-86.

Moore, Winston, Kester Guy and Shonette Bowen, "The Demand for Insurance in Latin America and the Caribbean", *Journal of Public Sector Policy Analysis*, Volume 5, 2011, pp. 22-51.

Moore, Alvon; "Demand Elasticity of Oil in Barbados", *Energy Policy*, 39 (2011) 3515-3519.

Thomas, Chrystol, and Tracy Maynard, "Measuring Tax Effort for a Small Open Economy: The Case of Barbados", *The Business Review*, Cambridge 18(2), pp. 254-9.

Thomas, Chrystol, "Assessing Tax Misperceptions in Barbados", *Journal of Public Sector Policy Analysis* 5, pp. 52-75.

Thomas, Chrystol, "The Estimated Impact of the 2010/11 Budget on the Fiscal Deficit", *Central Bank of Barbados Economic Review*, 2011, Vol. XXXVII, Issues 1&2, pp. 4-6.

Worrell, DeLisle, Anton Belgrave, Tiffany Grosvenor and Alexis Lescott, "An Analysis of the Tourism Sector in Barbados", *Central Bank of Barbados Economic Review*, 2011, Vol. XXXVII, Issues 1&2, pp. 49-79.

Wright, Allan, André Burgess, Sheryl Peter, Alexis Lescott, S. Skinner and L. Agarad, "Estimating Average Intended Length of Stay of Tourist Arrivals to Barbados 2004-2011", *Central Bank of Barbados Economic Review*, Vol. XXXVII, Issue 4, pp. 25-42.

Wright, Allan, and Roland Craigwell, "Foreign Direct Investment and Corruption in Developing Countries: Evidence from Linear and Non-Linear Causality Tests", *Economics Bulletin*, Vol. XXXI, Issue 3, pp. 2272-2283.

Wright, Allan, Roland Craigwell and D. RamjeeSingh "Exchange Rate Determination in Jamaica: A Market Microstructures and Macroeconomic Fundamentals Approach", *Journal of Business, Finance and Economics in Emerging Economies*, Vol. VI, No. 1.

Wright, Allan, T. Khemraf and S. Pasha "Market Power and Exchange Rate Determination in a Nascent Flexible Exchange Rate Regime", *Transition Journal*, Issue 40.

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Belgrave, Anton, Kester Guy and Mahalia Jackman "Industrial Shocks and Non-Performing Loans in Barbados" 71st International Atlantic Economic Society, Athens, Greece, March 16-19.

Browne, Rudolph, and Winston Moore "Simulating the Effects of Changes in Tax and Benefit Policies on Income Inequality in Barbados", 31st Central Bank of Barbados Annual Review Seminar, July 26-29.

Burgess, André, and Alexis Lescott, "Measures of Economic Performance: Economic versus Societal Well-Being", 31st Central Bank of Barbados Annual Review Seminar, July 26-29.

Bynoe, Ryan, Tracy Maynard and Alvon Moore "Towards a Better Understanding of the Contribution of the International Business Sector to Barbados", 31st Central Bank of Barbados Annual Review Seminar, July 26-29.

Guy, Kester, and Shane Lowe, "A Micro-Approach to Bank Liquidity with Implications for Bank Stability in Barbados", CCMF Conference, Barbados, November 15-18.

Jackman, Mahalia, Roland Craigwell and Michelle Doyle-Lowe, "Non-Linearity in the Reaction of the

Foreign Exchange Market to Interest Rate Differentials: Evidence from a SOE with a Long Term Peg", CCMF Conference, Barbados, November 15-18.

LaCorbinière, Jason, and Roland Craigwell, "The Fiscal and Debt Nexus in Barbados: A Fiscal Policy Response Function", CCMF Conference, Barbados, November 15-18.

Lowe, Shane, and Tiffany Grosvenor, "Exploring Liquidity Linkages among CARICOM Banking Systems", Central Bank of Barbados 31st Annual Review Seminar, July 26-29.

Lowe, Shane, and DeLisle Worrell, "International Business and Financial Services Centres in the Caribbean", Central Bank of Barbados' 31st Annual Review Seminar, July 26-29.

Lowe, Shane, and Kester Guy, "Non-performing Loans and Bank Stability in Barbados", Central Bank of Barbados' 31st Annual Review Seminar, July 26-29.

Lowe, Shane, and DeLisle Worrell, "International Financial Reform: A Caribbean Perspective", Commonwealth/IFC Forum Conference, October 20.

Thomas, Chrystol, "Trade Openness and Inflation: Panel Data Evidence for the Caribbean", Clute Institute's 2011, Las Vegas International Academic Conference, October 11.

Worrell, DeLisle, Anton Belgrave, Denisa Applewaithe and Jason LaCorbinière, "Fiscal Sustainability with an Exchange Rate Peg", IMF/CBB Seminar, January.

Adoption of Financial Statements 2011

The Central Bank of Barbados Act requires the Bank to promote the general well-being of the Barbados economy. In this respect, the Bank seeks to explain how it uses assets and liabilities to achieve this purpose. The Bank also provides information on proposed changes to the legislation governing its operations and accounting environment.

The Balance Sheet

The size of the Balance Sheet increased by \$195 million in 2011. External Assets increased by \$24.0 million as major inflows attributable to Government's net external borrowings for policy loans from regional and international financial institutions were largely offset by outflows of \$153 million for oil payments. Domestic Assets increased by \$171 million, of which \$157 million was attributable to increased lending to Government, including through the purchase of treasury bills. For the second consecutive year, notes and coins in circulation, the largest liability on the Balance Sheet, increased modestly, whereas the transaction volumes for Point Of Sale and Automatic Teller Machine operations grew significantly. On the liabilities side, Government deposits increased by \$30.5 million to reach \$263.6 million and deposits of commercial banks are \$549.6 million representing an increase of \$148.4 million over the previous year.

Statement of Profit and Loss

The Bank continued its risk-averse approach to securities management and accordingly, held investments to maintain economic stability, Government policy and integrity of the payments system. Total income decreased from \$61.5 million in 2010 to \$54.0 million in 2011, a decrease of \$7.4 million or 12%. Interest income from

the main areas of activity of treasury bills, investments and advances increased by \$1.1 million. Re-investment yields are extremely low and high yielding securities are expensive and long term. In view of the above market conditions, the Bank was less active in the securities market and as a result, gains on sale of securities declined by \$5.9 million.

Commission and fees for 2010 included a non-recurring amount of \$3.7 million from the maturity of a foreign bond and the current year was adversely affected by a decrease in the margins at which the Bank purchased foreign exchange, effective August 2011, and the lower volume of sales to commercial banks.

Operating Expenses

Total expenses declined by \$2.5 million during 2011 mainly as the result of a non-recurring charge which was incurred during 2010. Salaries and Administrative Expenses increased by \$1.3 million, which largely represented an increase in the Bank's contribution to the pension plan in order to maintain the unfunded liability at an acceptable level. Purchase of notes and coins declined by \$0.7 million, reflecting the policy of amortising the cost of notes and coins over a period of two (2) years rather than in the year of receipt.

The CMCF debt matured at April 01, 2009 and the total provision for impairment at December 31, 2011 is \$15.9 million. The Bank and the CMCF agent are in the process of liquidating this debt.

Results for the Year

As a result of the sharp decline in revenue, the Bank incurred a net loss of \$2.0 million during the year. This loss will be applied to the accumulated deficit at December 31, 2010.

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 the amended legislation. In the interim, the Bank will continue to identify key areas of differences between current reporting standards and IFRS.

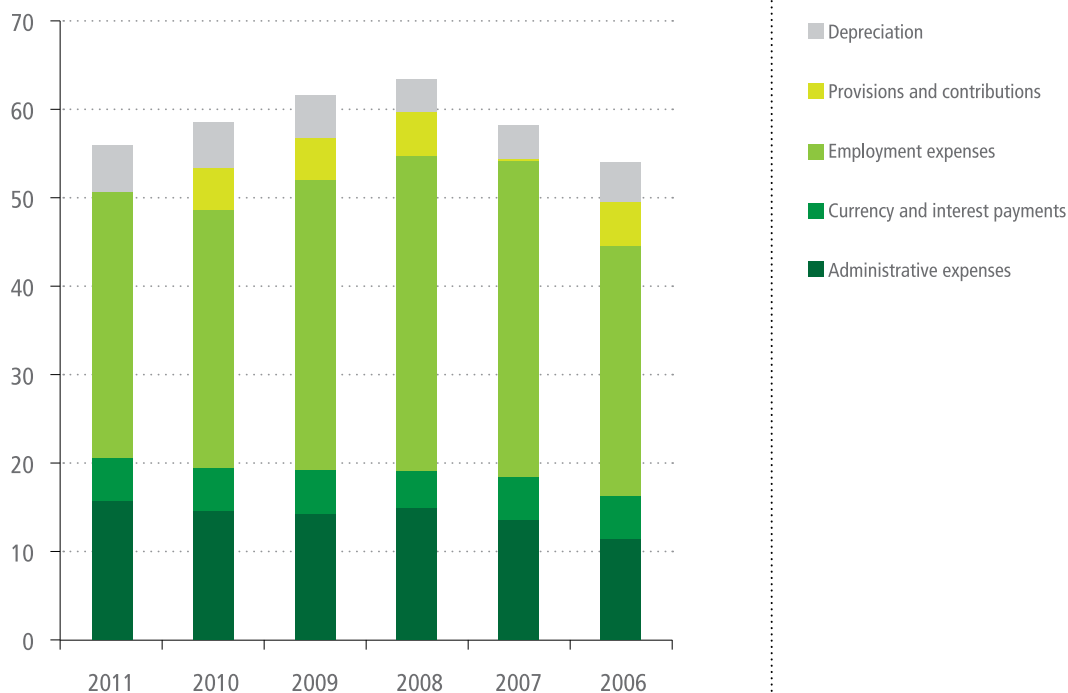
The impact of adopting IFRS cannot be reasonably measured and determined at this time.

Adoption of Financial Statements

Annexed to this report are the Auditors' Certificate, Balance Sheet as at December 31, 2011, the Profit and Loss Account, the Profit and Loss Appropriation, Statement of Cash Flows and explanatory notes to the 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, 2011.

Expenses 2006 - 2011



A close-up photograph of two green leaves. The leaf in the foreground is larger and more prominent, covered in numerous clear water droplets of varying sizes. The leaf in the background is partially obscured and out of focus. The background is a plain, light color.

Financial Statements

December 31, 2011

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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, 2011, 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, 2011 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 23, 2012

Balance Sheet

December 31, 2011
with comparative figures for 2010

ASSETS			
	NOTES	2011 BDS\$	2010 BDS\$
Reserve of External Assets:			
Balances Held Abroad	2	243,847,823	135,304,913
Foreign Notes and Coins		10,847,393	27,184,052
Foreign Securities	3	<u>716,387,755</u>	<u>798,360,098</u>
		<u>971,082,971</u>	<u>960,849,063</u>
International Monetary Fund:			
Reserve Tranche	4	18,974,047	17,688,295
Holdings of Special Drawing Rights	4	<u>184,020,946</u>	<u>171,625,930</u>
		<u>202,994,993</u>	<u>189,314,225</u>
Total Reserve of External Assets		<u>1,174,077,964</u>	<u>1,150,163,288</u>
LOCAL ASSETS:			
Local Securities:			
Barbados Government Treasury Bills	5	177,427,299	19,955,238
Barbados Government Debentures	5	<u>75,000,000</u>	<u>75,000,000</u>
		<u>252,427,299</u>	<u>94,955,238</u>
Advances:			
Government		247,620,000	229,390,000
Fixed Assets (Net)	6	94,617,827	93,505,368
Other Assets	7	<u>34,886,026</u>	<u>40,195,085</u>
Total Local Assets		<u>629,551,152</u>	<u>458,045,691</u>
		<u>1,803,629,116</u>	<u>1,608,208,979</u>

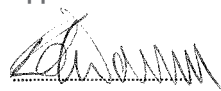
See accompanying notes to accounts.

Balance Sheet

December 31, 2011
with comparative figures for 2010

LIABILITIES, CAPITAL AND RESERVES			
	NOTES	2011 BDS\$	2010 BDS\$
Liabilities:			
Notes and Coins in Circulation	8	650,217,648	648,760,065
Deposits:			
Government		263,585,311	233,089,088
Banks		549,620,807	401,268,060
Financial Institutions		857,307	10,534,259
Other		7,852,706	3,155,738
		821,916,131	648,047,145
Other Liabilities:			
Allocation of Special Drawing Rights	9	210,390,564	196,133,718
Other	10	91,559,945	91,754,926
		301,950,509	287,888,644
Total Liabilities		1,774,084,288	1,584,695,854
Other Funds			
	11	19,978,163	11,983,707
Capital and Reserves:			
Authorized capital: <i>BDS\$5,000,000</i>			
Paid up capital: Government of Barbados		2,000,000	2,000,000
Accumulated Deficit		(8,433,335)	(6,470,582)
General Reserve		16,000,000	16,000,000
Net Capital and Reserves		9,566,665	11,529,418
Commitments and Contingencies			
	12	1,803,629,116	1,608,208,979

Approved on behalf of the Board of Directors on February 23, 2012



Governor



Financial Controller

Profit and Loss Account

For the year ended December 31, 2011
with comparative figures for 2010

	Notes	2011 BDS\$	2010 BDS\$
INCOME:			
Commissions and Fees		10,217,595	16,153,169
Discounts:			
Treasury Bills		1,601,134	568,507
Interest:			
Advances		6,257,151	5,445,970
Deposits		287,994	305,298
Securities		28,592,627	29,341,414
Other Income	13	2,107,498	1,519,713
Foreign exchange gain (loss)		2,419,521	(304,902)
Gain on sale of Foreign Securities		2,529,542	8,429,808
Total Income		54,013,062	61,458,977
EXPENSES:			
Administrative Expenses		15,771,804	14,540,608
Depreciation		5,490,246	5,216,984
Interest		117,496	169,781
Minting of Coins		2,694,608	680,926
Printing of Notes		1,801,437	4,544,869
Debt Impairment	14	-	4,661,715
Retirement Benefits	15	4,482,349	3,135,901
Salaries and Allowances		25,617,875	25,537,399
Operating Expenses		55,975,815	58,488,183
(Loss) Profit before Appropriation		(1,962,753)	2,970,794

See accompanying notes to accounts.

Profit and Loss Appropriation Account

For the year ended December 31, 2011
with comparative figures for 2010

	2011 BDS\$	2010 BDS\$
Balance brought forward	(6,470,582)	(9,441,376)
(Loss) profit before Appropriation	<u>(1,962,753)</u>	<u>2,970,794</u>
Accumulated Deficit carried forward	<u>(8,433,335)</u>	<u>(6,470,582)</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, 2011
with comparative figures for 2010

	Notes	2011 BDS\$	2010 BDS\$
Cash flows from operating activities			
Net (loss) profit before appropriation		(1,962,753)	2,970,794
Adjustments for:			
Depreciation		5,490,246	5,216,984
Loss on sale of capital assets		20	10,054
Debt impairment	14	-	4,661,715
Operating profit before working capital changes		3,527,513	12,859,547
Decrease in other assets		5,309,059	4,444,818
Net movement in foreign securities		81,972,343	29,940,834
Increase in reserve tranche		(1,285,752)	(353,794)
Increase in holdings of special drawing rights		(12,395,016)	(1,462,234)
(Increase) decrease in local securities		(157,472,061)	6,815,262
(Increase) decrease in government advances		(18,230,000)	44,200,000
Increase (decrease) in deposits		173,868,986	(64,256,841)
(Decrease) increase in other liabilities		(194,981)	15,692,982
Net cash from operating activities		<u>75,100,091</u>	<u>47,880,574</u>
Cash flows from investing activities			
Purchase of fixed assets		(6,602,725)	(7,183,326)
Proceeds from sale of fixed assets		-	963
Net cash used in investing activities		<u>(6,602,725)</u>	<u>(7,182,363)</u>
Cash flows from financing activities			
Increase in allocation of special drawing rights		14,256,846	1,724,846
Increase in notes and coins in circulation		1,457,583	19,779,205
Increase in other funds		7,994,456	-
Net cash from financing activities		<u>23,708,885</u>	<u>21,504,051</u>
Net increase in cash and cash equivalents		92,206,251	62,202,262
Cash and cash equivalents at beginning of year		<u>148,417,606</u>	<u>86,215,344</u>
Cash and cash equivalents at end of year		<u>240,623,857</u>	<u>148,417,606</u>
Cash and cash equivalents comprise:			
Current Account Balances	2	229,776,464	121,233,554
Foreign Notes and Coins		<u>10,847,393</u>	<u>27,184,052</u>
		<u>240,623,857</u>	<u>148,417,606</u>

See accompanying notes to accounts.

Notes to Financial Statements

December 31, 2011

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:

	2011	2010
	\$	\$
Current accounts and deposits with foreign banks	229,776,464	121,233,554
Caricom Multilateral Clearing Facility (C.M.C.F)		
(Net of provision: 2011: \$15,798,141 (2010: \$15,798,141))	14,071,359	14,071,359
	<u>243,847,823</u>	<u>135,304,913</u>

The CMCF Account matured on April 01, 2009. The Bank expects to receive settlements from the CMCF Accumulated Fund. The impairment provision of \$15,798,141 is 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:

	2011		2010	
	Amortized Cost \$	Market Value \$	Amortized Cost \$	Market Value \$
At Market Value:				
(a) Bonds/Debentures	696,603,071	716,053,738	786,569,870	798,026,081
(b) Equities	306,521	334,017	306,521	334,017
	<u>696,909,592</u>	<u>716,387,755</u>	<u>786,876,391</u>	<u>798,360,098</u>

The unrealized gain of \$19,478,163 (2010: \$11,483,707) arose on the revaluation of Securities and is included in Other Funds. See note 11.

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, 2011. The balances held at December 31, 2011 amounted to SDR 5,805,546 (2010: SDR 5,805,546) and SDR 56,305,441 (2010: SDR 56,330,033), respectively. The rate of translation of SDRs into Barbados dollars at December 31, 2011 is BDS\$1 = SDR 0.305973 (2010: BDS\$1 = SDR 0.328214).

5. LOCAL SECURITIES

Local securities comprise:

	2011		2010	
	Nominal Value \$	Cost \$	Nominal Value \$	Cost \$
Barbados Government				
Treasury Bills	<u>178,715,500</u>	<u>177,427,299</u>	<u>20,000,000</u>	<u>19,955,238</u>
Barbados Government				
Debentures	<u>75,000,000</u>	<u>75,000,000</u>	<u>75,000,000</u>	<u>75,000,000</u>
	<u>253,715,500</u>	<u>252,427,299</u>	<u>95,000,000</u>	<u>94,955,238</u>

6. FIXED ASSETS

Fixed assets comprise:

	Freehold Land and Buildings	Furniture, Plant and Equipment	Motor Vehicles	Total
	\$	\$	\$	\$
<i>Cost:</i>				
December 31, 2009	95,915,452	49,972,262	979,883	146,867,597
Additions	2,608,834	4,574,492	-	7,183,326
Disposal/write-offs	-	(1,045,927)	(387,137)	(1,433,064)
December 31, 2010	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	102,137,346	56,423,754	592,746	159,153,846
<i>Depreciation:</i>				
December 31, 2009	20,487,462	33,999,339	830,753	55,317,554
Charge for the year	1,385,427	3,769,802	61,755	5,216,984
Eliminated on disposals	-	(1,034,911)	(387,136)	(1,422,047)
December 31, 2010	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	23,261,247	40,724,706	550,066	64,536,019
<i>Net Book Values:</i>				
December 31, 2011	78,876,099	15,699,048	42,680	94,617,827
December 31, 2010	76,651,397	16,766,597	87,374	93,505,368
December 31, 2009	75,427,990	15,972,923	149,130	91,550,043

7. OTHER ASSETS

Other assets include:

	2011	2010
	\$	\$
Accrued income	2,704,716	2,137,765
Cheques in process of collection	2,149,172	3,006,964
CRL Limited ^(a)	9,000,000	9,000,000
Financial Institution	-	5,245,269
Prepayments	1,186,120	3,596,554
Staff advances	18,644,775	16,040,892
Sundry balances	1,201,243	1,167,641
	<u>34,886,026</u>	<u>40,195,085</u>

(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, 2011, the cumulative interest not recognized was \$5,401,973 (2010: \$5,401,973).

8. NOTES AND COINS IN CIRCULATION

At December 31, 2011, the nominal value of numismatic coins sold, totalled approximately \$10.4 million (2010: \$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:

	2011	2010
	\$	\$
Accounts payable	5,678,552	4,468,518
Special Development Bonds - Sinking Fund	447,870	1,541,109
Contribution payable - Secondary Mortgage Market Project	242,319	242,319
Contribution payable - Barbados Investment Fund	300,000	300,000
Contribution payable - UWI Fund re Chair in Banking	861,169	861,169
Debenture Interest payment account	24,179	1,012,616
Deposit Insurance Company accounts	147,772	144,674
Domestic clearing	5,539,446	552,366
Dormant accounts - Commercial Banks*	22,642,719	21,074,066
Export Development Fund	201,169	201,169
Housing Credit Fund General account	5,648,273	9,396,429
Industrial Credit Fund	5,374,831	10,178,997
Redemption of Debentures account	37,835,620	3,485,620
Sinking Fund Contribution account	4,271,407	34,587,344
Small Business Fund	330,000	330,000
Staff Pension Fund	254,388	242,009
Staff Welfare Fund	792,010	1,031,674
Sundry balances	968,221	2,104,847
	<u>91,559,945</u>	<u>91,754,926</u>

* Dormant accounts – Commercial Banks represent abandoned property for which no activity has been evidenced for a period of 10 years and this property has been deposited with the Central Bank of Barbados under Section 88 (3) of the Financial Institutions Act, CAP 324 A.

11. OTHER FUNDS

This amount comprises the following balances:

	2011	2010
	\$	\$
Special Credit Trust	500,000	500,000
Unrealised gains on revaluation of investments (note 3)	<u>19,478,163</u>	<u>11,483,707</u>
	<u>19,978,163</u>	<u>11,983,707</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

At December 31, 2011 the Bank had guaranteed settlement of approximately \$1,141,944 (2010: \$1,883,744) under the following scheme:

	2011		2010	
	Value of Contracts	Guarantee	Value of Contracts	Guarantee
	\$	\$	\$	\$
Credit Insurance Scheme for Small Businesses	1,534,422	1,141,944	2,378,087	1,883,744

(b) Additionally, at December 31, 2011, the Bank had contracts for capital expenditure in the amount of \$1,154,762 (2010: \$5,127,373).

13. OTHER INCOME - RELATED PARTIES

Other income includes management fees received as follows:

	2011	2010
	\$	\$
Industrial Credit Fund	196,450	216,050
Housing Credit Fund	560,528	542,396
	756,978	758,446

At December 31, 2011, the Bank owned and/or managed certain entities. The gross assets as disclosed in the entities' financial statements are as follows:

	2011	2010
	\$	\$
Export Credit Insurance	10,315,123	10,043,423
Small Business Guarantee	9,694,238	4,480,394
Industrial Credit Fund	128,547,191	126,061,761
Housing Credit Fund	162,770,907	157,588,076
	311,327,459	298,173,654

14. DEBT IMPAIRMENT

Debt Impairment comprises provisions for impairment of:

	2011	2010
	\$	\$
CMCF debt (see note 2)	-	4,159,570
Foreign securities	-	490,068
Other assets	-	12,077
	<u>-</u>	<u>4,661,715</u>

15. RETIREMENT BENEFITS

The Bank has established a non-contributory retirement plan for the benefit of its employees. The plan is a defined benefit plan. The assets of the plan are held in separate trust administered funds. A full actuarial valuation is obtained from an independent valuer at least every three years and a review is done annually. The most recent valuation carried out at December 31, 2011 revealed the following:

	2011	2010
	\$	\$
Fair value of plan assets	120,563,485	114,198,924
Actuarial present value of liabilities	<u>121,686,692</u>	<u>111,520,586</u>
(Unfunded liability) surplus	<u>(1,123,207)</u>	<u>2,678,338</u>

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

	2011	2010
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 13.15% (2010: 10.48%) of covered payroll be used for new benefits. Consequently the deficit will be funded by a rate of 0.42% over a period of fifteen (15) years. In 2010 the rate of 1.03% was applied to the amortization of the surplus over a similar period of fifteen (15) years. The total recommended funding rate of 13.15% (2010: 10.48%) of covered payroll should obtain until the next valuation.

16. TAXATION

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

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation for the current year.

18. SUBSEQUENT EVENT

In 1992, the Bank entered into a participatory agreement with the Caribbean Financial Services Corporation (CFSC) to establish the Barbados Investment Fund (the 'Fund' or "BIF"). Contributions to the Fund were charged to the Profit and Loss Account.

Pursuant to a decision of the Board on January 26, 2012, the Bank, by mutual agreement, will exit the BIF and the BIF will return capital and accumulated earnings of \$6.8 million to the Bank at an agreed date. This amount will be recognised as income and charged to the Profit and Loss Account when received. The previous contributions to the fund were expensed as incurred.

Notes



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ANNUAL REPORT 2011

Printed by Panagraphix