



ANNUAL REPORT 2009



On the Cover:

The economic sectors depicted on the cover represent the main pillars which help to provide financial stability to the economy of Barbados.

The colour used for the Annual Report cover symbolises the Bank's sensitivity to the importance of protecting our environment.



CENTRAL BANK *of* BARBADOS

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CENTRAL BANK
of BARBADOS

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Mission Statement

The Mission of the Central Bank of Barbados is to foster a sound economic and financial environment which promotes the development of its stakeholders and encourages a culture of excellence and leadership.

Corporate Profile

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

- promoting monetary stability,
- promoting a sound financial structure
- fostering development of the money and capital markets
- channelling commercial bank credit into productive activities and
- fostering credit and exchange conditions conducive to the orderly and sustained economic development of Barbados.

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LETTER OF TRANSMITTAL

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

March 31, 2010

Dear Prime Minister

In accordance with Section 52(2) of the Central Bank of Barbados Act, Cap 323C, Laws of Barbados, I have the honour to submit to you in your capacity as Minister of Finance, the Bank's Annual Accounts for the year ended December 31, 2009 as certified by the External Auditors in accordance with Section 51 of the Act, together with the Report on its operations during 2009.

The original of the Auditor's Report and Certificate was forwarded to you with my letter of March 23, 2010.

Sincerely,

A handwritten signature in black ink, appearing to read "R. DeLisle Worrell".

R. DeLisle Worrell,
Governor

The Hon. David J.H. Thompson, MP
Prime Minister and Minister of Finance
Ministry of Finance
Government Headquarters
Bay Street
St. Michael



THE BOARD OF DIRECTORS



Sitting Left to Right - Ms. Onika Stewart, LL. B. (UWI), LL., M. (Lond), L.E.C.; Dr. DeLisle Worrell, G.C.M., Ph.D;
Mr. Harold Hoyte, G.C.M.,
Standing Left to Right - Mr. Cecil McCarthy, LL. B. (UWI), L.E.C.; Mr. Ashley Toppin, J.P., F.C.C.A.;
Mr. Elson Gaskin, LL. B. (UWI), L.E.C.;
Inset: Justin Robinson Ph.D. (Manc), MSc., BSc. (UWI); and Mr. Grantley W. Smith, Esq., B. C. H., B.A. (Hons.), D.P.A.



THE MANAGEMENT COMMITTEE



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



Daniel O. Boamah, Ph.D.
Deputy Governor



Cleviston L. Haynes, Esq.,
M.A.(Econ.) Deputy Governor



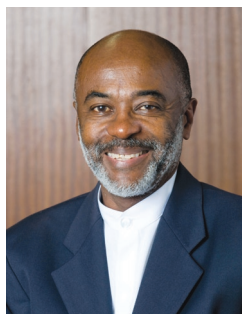
Elson Gaskin, Esq., LL. B.
(UWI), L.E.C. Secretary to
the Board



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



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



Harold E. Codrington, Esq.,
M.A.(Econ.) Adviser



Kevin Greenidge, Ph.D.
Director, Research



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



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



Abdul R. Mehter, Esq.,
M.B.A., F.C.I.S. Director,
Facilities Management



Steve Vaughn, Esq.,
A.C.C.A., C.I.A. Director,
Internal Audit



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



Peter H. Whitehall, Esq.,
M.P.A. Director, Foreign
Exchange and Export Credits

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OTHER SENIOR OFFICERS

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

Miss Angolyn Kirton, C.G.A.
Deputy Financial Controller

Miss Celeste J. Wood, M.Sc., M.B.A.
Deputy Director, (Statistics) Research

Miss Octavia O. Gibson, J.P., M.Sc.
Deputy Director, Banking, Currency and
Investments

Hartley Jordan, Esq., M.B.A.
Deputy Director, Facilities Management

Michelle Doyle-Lowe, M. Phil., CFA.
Deputy Director, Banking, Currency and
Investments

Peter deC. Rochester, Esq., M.B.A.
Deputy Director, Management Information
Systems



GOVERNOR'S REPORT

Introduction

The year 2009 was especially challenging for the Central Bank of Barbados. The deepening global financial crisis had a severe impact on the domestic economy, reducing foreign exchange earnings and inward private sector flows, while pushing up the fiscal deficit and the unemployment rate. It was the sharpest downturn since 1992.

The Bank responded to the recession with a range of measures designed to reduce borrowing costs and provide access to funding for small business. In addition, it introduced reserve requirements for deposit taking non-bank companies licensed under the Financial Institutions Act. This had the beneficial impact of enabling the Bank to provide liquidity support for one of its licensees in the aftermath of the CLICO collapse.

Calendar 2010 promises to be equally challenging as the global economy begins to recover from its deep recession. The recovery is expected to be slow and uneven in our major trading partners' markets. Macroeconomic policy will therefore need to be prudent while laying the basis for a sustainable growth over the medium term.

Administrative

The loss of reserves during the year, together with low interest rates on the Bank's remaining foreign investments, depressed income and contributed to the institution's first financial deficit in 23 years. Notwithstanding the difficulties posed by tight budgetary constraints, the Bank's staff responded with a commendable degree of commitment and resilience and continued to provide a high quality of service to the Bank's varied publics. The major programmes and achievements of 2009 are set out elsewhere in this Report.

Strategies

The Bank remains committed to the goal of becoming a world-class centre of excellence. In this regard, the Board of Directors has approved a strategy that will see the Bank aggressively implementing programmes that will enable it to meet its statutory objectives, strengthen risk management across the organisation, enhance productivity and efficiency and foster an environment that makes the Bank a first choice for employees.

Given its critical role in the formulation, implementation, monitoring and adjustment of macroeconomic policy, the Bank has begun to establish mechanisms that will facilitate increased information-sharing between all the decision makers in the Ministries of Finance & Economic Affairs and the Bank's top economic team. This will be centred on more frequent consultations and joint access to databases.

The Bank will enhance further its economic intelligence system to enable the development of a framework which incorporates all relevant data and allows for fully integrated fiscal and monetary policy. In this regard, the Bank is committed to strengthening its capacity to assess and report on the stability of the domestic financial system. This initiative has taken on additional urgency because of the recent unprecedented crisis in world financial markets. The evolution of that crisis reinforces the view that early warning of financial weakness at the institutional level is perhaps the best defence against the risk of systemic contagion. Given the interdependence of financial institutions, the Bank will strengthen collaboration with other regulatory agencies including the proposed Financial Services Commission to assess risks and exposures and conduct stress testing of major financial institutions, including banks, insurance companies and credit unions. It is

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GOVERNOR'S REPORT (continued)

intended that the first Financial Stability Report will be ready by December 2010.

To ensure that its publics are kept abreast of economic developments, the Bank is embarking on a communications strategy that fully embraces available 21st century technology. To this end, the Bank will establish a unit which will have the task of communicating with and engaging our publics. The Bank will post data and publications on its website in a timely and consistent manner and major presentations by senior management will be available via webcast.

The Bank is in the process of implementing major system upgrades aimed at improving the operational efficiency and customer service in several departments. However, the attainment of these broad objectives above will also require re-appraisal of the organisational structure which has served us well in the past. In addition, modes of operation will be reviewed in an effort to facilitate greater efficiency and opportunities will be provided to further unlock the potential of our staff by encouraging initiative and creativity.

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ADMINISTRATION

Board of Directors

Dr. Marion Williams, retired as Governor of the Bank on October 31, 2009. The Directors, Management and staff of the Bank commend Dr. Williams for her 36 years of meritorious service to the institution, the last ten of which were as Governor. At a farewell function in her honour at the Lloyd Erskine Sandiford Centre, she was described as the consummate academic and technician, and extolled for her outstanding service and commitment. Prime Minister David Thompson was among those paying tribute. The Bank wishes her well in her future endeavours.

Dr. R. DeLisle Worrell, a distinguished Caribbean economist and former Deputy Governor of the Bank, was appointed as the sixth Governor and Chairman of the Board of Directors for a five year term, effective November 1, 2009. The Bank wishes Dr. Worrell a successful and rewarding tenure as Governor.

Sir Kyffin Simpson resigned as a director of the Bank effective March 11, 2009. Mr. Harold Hoyte was appointed to replace him on May 15, 2009.

Mr. Cecil McCarthy was appointed to the rank and dignity of one of Her Majesty's Counsel in May 2009. The Directors congratulate Mr. McCarthy on achieving this honour.

The Board convened 11 regular meetings and 1 special meeting in 2009.

The Board approved proposed amendments to the Central Bank Act and these recommendations were forwarded to the Ministry of Finance in December 2009. These amendments make provision for *inter alia* enhancing the

Bank's role in promoting financial stability, strengthening the Bank's capacity to carry out its regulatory function and facilitating the presentation of the Bank's financial statements in accordance with International Financial Reporting Standards.

Management and Staff

As at December 31, 2009, there were 279 established posts, of which 248 were filled by permanent and 28 by temporary employees.

During the year, 18 persons joined the Bank's permanent establishment. These included Mr. Steve Vaughn as Director, Internal Audit and Mrs. Janice Marville as Director Human Resources. Nine persons, including Deputy Governors Mr. Victor Springer and Mr. Carlos Holder, retired. Six other persons left the Bank during the year. In addition, Ms. Zilpha Grainger, a Security Officer died in the employment of the Bank.

Promotions

Fourteen persons were promoted during the year as follows:

- Mr. Peter Whitehall from Deputy Director, Research to Director Foreign Exchange & Export Credits.
- Miss Novaline Brewster, Public Affairs Officer, was upgraded to the level of Assistant Director.
- Mrs. Estherlene O'Neal and Miss Tamara Hurley from the post of Bank Examiner to Senior Examiner.
- Miss Stacia Howard and Mr. Travis Mitchell from Economists, to Senior Economists.
- Mrs. Inge Lucas and Mr. David Bowen from Exchange Control Officers, to Senior Exchange Control Officers.
- Mrs. Janice Outram and Miss Sherri Bishop from Clerical Officers, to Currency Officers.

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- Mr. Callam Barnard and Miss Margaret Nurse from Clerical Officers, to Exchange Control Officers.
- Miss Denisa Applewhaite and Mr. Julian Jones from Clerical Officers, to Statistical Officers.

Academic Achievements 2009

Several members of staff continued to pursue further academic qualifications at the University of the West Indies (UWI), Cave Hill Campus, resulting in the award to

- Miss Wanda Massiah - Master of Science Degree in Banking & Finance.
- Mrs. Angela Smith-Callender - the Bachelor of Arts Degree in English.
- Mrs. Sue-Ann Bayley - Bachelor of Science Degree in Management.
- Miss Stephanie Bowen - Bachelor of Science Degree in Public Sector Management.
- Mrs. Toni Sandiford - Bachelor of Science Degree in Banking & Finance.

In addition, Mrs. Simone Forrester successfully completed the Information Systems Audit and Control Association's Certified Information Systems Auditor (CISA) certification, while Mr. Terry Burke completed the Certified Information Systems Security Professional (CISSP) examination with the International Information Systems Security Certificate Consortium. Other certificate courses pursued by members of staff included those offered by the Barbados Institute of Management and Productivity (BIMAP), the UWI Open Campus and Dale Carnegie.

Security Officer, Miss Kay Reid completed the Professional Security Training Consultants Diploma – Part 1 while Security Officers, Mr. Marlon White and Mr. Gregory Morris completed the "Senior Security Officers Training" course at the Regional Police Training Centre.

Staff attended several local and external conferences and seminars as well as in-house training in Supervisory Management.



OPERATIONS

Accounts Department

The Accounts Department monitored administrative expenses in the context of lower-than-budgeted earnings. Preparation for the implementation of an upgrade to the accounting information system continued, with staff members receiving the necessary training. The new system, which is expected to go 'live' in the second quarter of 2010, will integrate seamlessly with existing and proposed new applications and will provide data and business intelligence to more effectively assist in the management and control of expenditure and the provision of related data analysis.

The Automated Clearing House (ACH) continued to perform effectively and efficiently during the year and maintained the integrity of the payments system. The average number of cheques and direct payments cleared monthly

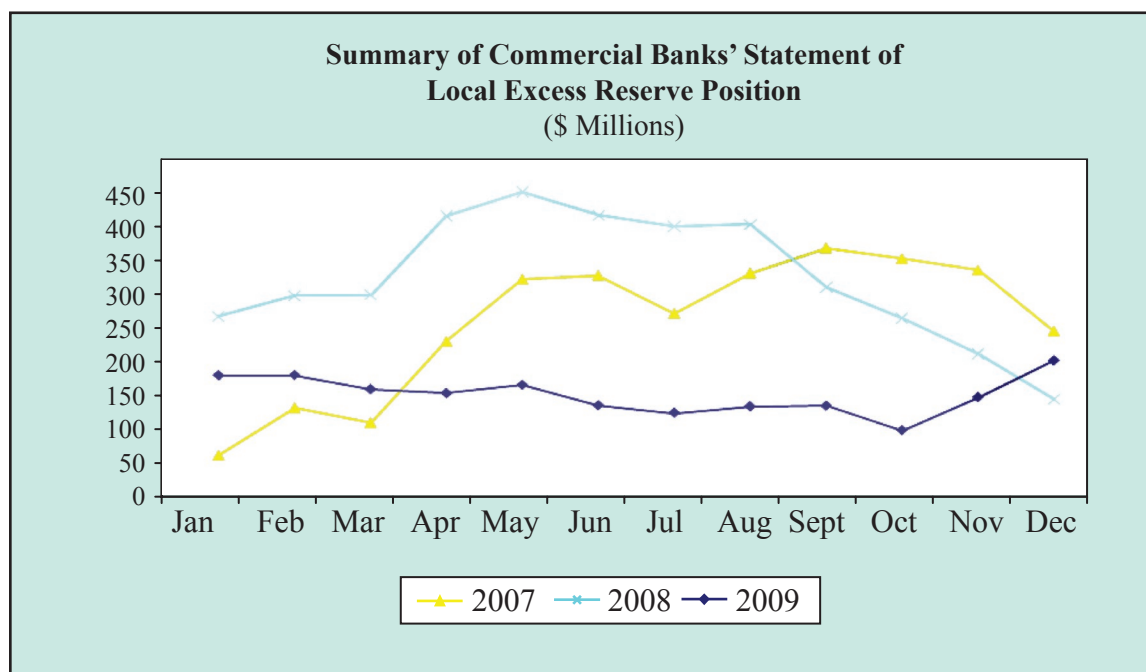
was 467,000 and the average for Point-of-Sale (POS) and Automatic Teller Machine (ATM) transactions was 491,700. The commissioning of a new and improved proof machine with advanced imaging and archiving facilities will enhance the operations of the ACH.

Banking, Currency & Investments

During 2009, the Banking, Currency & Investments Department was active in its core activities of liquidity management, foreign reserves management, supporting government's fiscal operations and the supply of the domestic currency.

Liquidity Management

The Bank lowered the discount rate payable on temporary advances from 10% p.a. to 8% p.a. in April 2009 and again in June 2009, to 7% p.a. However, as in 2008, commercial banks did not avail themselves of Central Bank financing as



Source: Central Bank of Barbados

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the banking system remained liquid, albeit at a lower level.

The Bank bought \$62.6 million in Treasury Bills from commercial banks during the year, compared to the \$2.0 million purchased in 2008. However, the majority (\$56 million) of these Bills were sold to other commercial banks rather than being held to maturity.

In April 2009, a local reserve requirement was introduced for entities licensed under Part III of the Financial Institutions Act (FIA). This resulted in ten institutions holding \$11.6 million with the Central Bank at year-end, of which approximately \$2.0 million were in excess of the statutory requirement. With the opening of reserve accounts for Part III companies, the Bank extended collateralised loans totalling Bds\$7.7 million to the Part III entity, Clico Mortgage and Finance Company (CMFC), which faced liquidity challenges during the year because of the difficulties encountered by its ultimate parent and affiliated entities.

Foreign Reserves Management

Low interest rates and depressed bond yields together with downward pressure on the Bank's stock of foreign reserves contributed to a reduction in the Bank's earnings from its foreign reserves portfolio. The low interest rate environment led to the early call of \$140 million in US Agency bonds, 16% less than the amount called in 2008. To realise some of the capital gains embedded in the Bank's portfolio due to the low interest rates, \$30 million in low coupon bonds were sold. Based on the securities sold and called, a realised capital gain of \$1.8 million was recorded for 2009. However, due to the turmoil in the US financial markets, the Bank realized a capital loss of \$3.3 million on its externally-managed portfolio, as some securities

in that portfolio were downgraded and written down, with permanent declines in value.

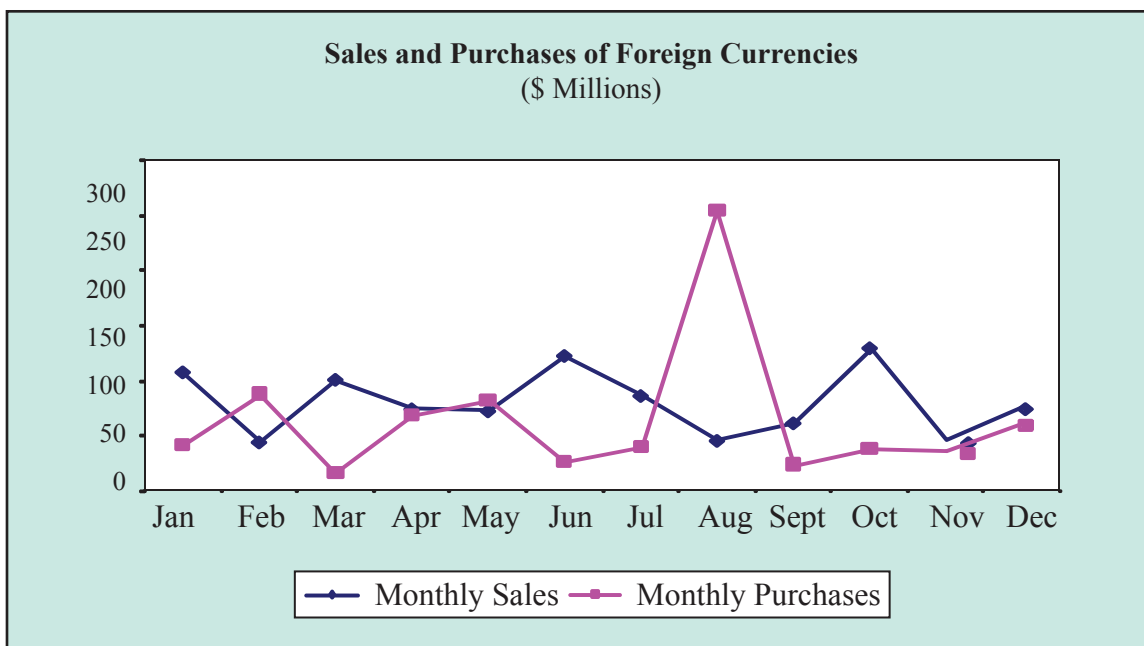
At year-end, the market value of the Bank's fixed income securities portfolio was \$847.6 million, inclusive of externally-managed funds and regional government securities, representing an increase of 11% over the previous year. Short-term deposit placements (1-3 months) fell by 5% to \$60.5 million, while the Bank held no US Treasury Bills at the end of 2009. The reduction in the foreign reserve requirement for commercial banks led to foreign banks reducing their foreign exchange holdings with the Bank by \$89.5 million.

Trading in Foreign Currencies

Foreign exchange outflows for 2009 outstripped inflows, but the net sale of \$143 million in foreign currency was \$180 million less than in 2008. Foreign exchange purchases from Government and financial institutions of \$809 million for 2009 were relatively unchanged, but sales of foreign exchange to the private sector declined by 17%. Government increased its direct foreign exchange spending by 3% for 2009.

Foreign exchange purchases peaked in August, on account of the receipt of proceeds from Government's US\$120 million foreign bond. The pattern for the demand of foreign exchange appeared to reflect the typical seasonal fluctuations, with foreign currency demand peaking in October.

During the year, \$85.6 million in foreign currency notes were purchased, a 25.8% decrease from the amount recorded in 2008. Total sales of foreign currency notes remained low, rising to \$6.0 million for 2009 from \$3.9 million the previous year.



Source: Central Bank of Barbados

Repatriations

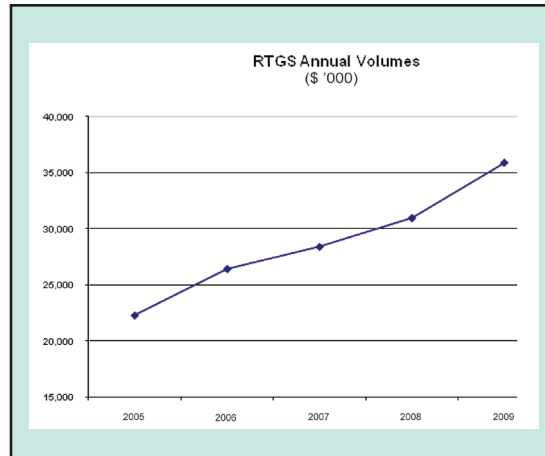
The total value of foreign notes repatriated in 2009 amounted to \$75.8 million, compared with \$108.1 million in 2008.

Currency Operations

During 2009, the section reviewed all procedures relating to currency and vault management. New procedures were implemented, resulting in improvements in dual custody and overall risk management.

Electronic Payments

The volume of large value transactions processed through the Central Bank's Real Time Gross Settlement system (CBRTGS), which is used for domestic wire transfers, increased by 18% for 2009, compared to an average increase of 11%



Source: Central Bank of Barbados

over the last three years. By December 31, 2009, the annual value of CBRTGS transactions settled involving commercial banks, Government and the Barbados Stock Exchange, had increased by 3% to \$35.4 billion, compared to the \$34.3 billion processed in 2008.

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Relationships with Government

Government Financing

The Ways and Means account balance was recorded at \$273.59 million at December 31, 2009, virtually in line with the prescribed limit and 2% over year-end 2008.

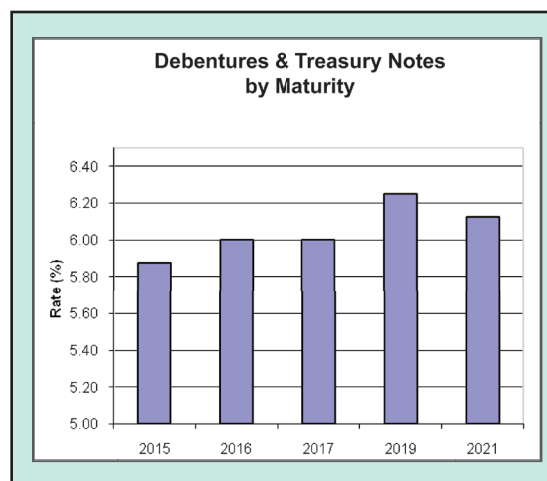
Approaching the end of 2009, the Bank purchased \$27.0 million in Treasury Bills in the primary market, in contrast to the previous year, when the Bank did not engage in primary market purchases. The Bank further extended its financing of Government operations by purchasing an additional \$31.0 million in Government Treasury Notes, to increase its holdings of Government's medium term paper to \$75.0 million by the end of 2009.

Government Debt Management

Long Term Securities

The Central Bank of Barbados, as fiscal agent for the Government of Barbados, issued a total of \$600.0 million in Debentures and Treasury Notes for 2009, some 10.4% less than the previous year. Of the debt issued in 2009, some \$171 million (28%) related to the rollover of the eight Debentures and Treasury Notes that matured during the year.

The Treasury Notes that were issued for 2009 ranged in maturity from 6 to 8 years, at an average coupon of 5.96%, while the two Debentures that are due to mature in 2019 and 2021 were issued at coupons of 6.25% and 6.125%, respectively – with the latter being



Source: Central Bank of Barbados

at a lower rate on account of the reduction in domestic interest rates between the dates that these bonds were issued.

Savings Bonds

Two Savings Bond issues were opened for subscription during 2009, each with a nominal value of \$15 million and a yield to maturity of 5.10%. By year-end, only 58% (\$17.33 million) of these Savings Bonds were allotted. Since \$13.4 million from two Savings Bond issues were also redeemed for 2009, the value of Savings Bonds outstanding was recorded at \$94.6 million by year-end, approximately 2% higher than the \$93 million recorded at the end of 2008.

Housing Credit Fund (HCF)

Activity for the Housing Credit Fund (HCF) slowed during 2009, but profitability remained stable. The Key Indicators are set out in the table on HCF operations.

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Key Indicators of HCF Operations (\$Million)

Indicators	2008	2009 ^(P)
Loan Approvals	16.00	4.00
Loan Disbursements	11.5	7.72
Principal Repayments	8.2	6.99
Loans Outstanding	131.55	132.28
Net Income	3.89	3.92
Capital Inflows	0.00	0.00
Net Worth	145.29	149.21

Source: Central Bank of Barbados
P: Provisional

Bank Supervision Department

At year-end, the Department was responsible for the supervision of eight commercial banks, 15 near banks and 50 international banks. Barbados continues to attract new international banks seeking to benefit from the suite of double taxation treaties. Five applications for licences under the International Financial Services Act (IFSA) were received and four new international banks were licensed during the year. One application was being processed. Five international banks were voluntarily wound up during the year. One domestic branch licensee was converted to a subsidiary operation and one near bank was upgraded to a bank under Part 2 of the Financial Institutions Act (FIA), offering its services to a niche clientele.

The Department continued its vigilance over the financial system through its onsite examination programme, and conducted risk-based inspections of institutions licensed under

FIA and IFSA. In addition, one joint inspection of a large credit union was conducted with the Registrar of Cooperatives. The Department maintained offsite monitoring of the sector and, as part of its offsite surveillance procedures, met with directors and senior management of both domestic and international banks. Progress was made with the transition to a full risk-based approach to supervision during the year.

In an effort to further strengthen the regulatory framework, the Department has identified amendments to the existing legislation, in conformity with the draft legislation prepared by the CARICOM Secretariat on a harmonised legislative framework for Caribbean jurisdictions. This work will involve amendment of the domestic and offshore legislation, amendment of the Central Bank of Barbados Act, and issuance/revision of Guidelines and Regulations.

During the year, the Department concluded a Memorandum of Understanding with the Office of the Superintendent of Financial Institutions (OSFI), Canada the home regulator of Canadian banks with operations in Barbados. This brings the total of signed Memoranda of Understanding to four.

The Department lost momentum with the implementation of the new capital accord but was able to continue the development of guidance notes and issued the Internal Capital Adequacy Assessment Process (ICAAP) Guideline and the Capital Adequacy: Measurement of Operational Risk & Reporting Form to the industry for comment. Other guidelines are at an advanced stage of drafting.

Facilities Management Department

The Facilities Management Department, placed emphasis on improving environmental conditions. In order to enhance the air filtering

systems, several departments were temporarily relocated to facilitate major refurbishment of their work areas. At year-end, this project was ongoing. In addition, a new chiller for the air-conditioning system was commissioned in the latter half of 2009. The physical improvements were complemented by continued environmental monitoring as several health and safety incidents were recorded for the period under review. Other health and safety initiatives, including CPR training for selected staff and review of ergonomic conditions continued.

The Department coordinated implementation of the new VOIP Communication system and furnishing of the Hotsite. Planning for an enlarged Hotsite to strengthen the Bank's Business Continuity capability was at an advanced stage. The Department also focused considerable effort on enhancing physical security in the vault, strengthening the capability of the CCTV system and upgrading internal security procedures.

Frank Collymore Hall

The Hall hosted several high quality events including the Sir Winston Scott Memorial Lecture by Jeremy Rikfin. The wings replacement project was completed and the website upgraded and re-launched in the first quarter. Operationally, the FCH effected a substantial reduction in its accounts receivable.

Foreign Exchange & Export Credits

Foreign Exchange

The Bank maintained its gradual and phased approach to the liberalisation of exchange controls. The Bank continued to identify areas where authority may be delegated to Authorised Dealers and Authorised Depositories in respect of the execution of foreign exchange

transactions without undue risk to the foreign exchange reserves. However, there were no major policy changes.

There was continued emphasis on strengthening and developing the monitoring mechanisms in respect of foreign exchange data collected from commercial banks and other financial intermediaries in collaboration with other Departments.

Export Credits

The number of small and medium-sized enterprises using the collateral support provided by the credit guarantee scheme fell during the year. At the end of 2009, there were 28 guarantees outstanding with a maximum liability of \$1.6 million compared to 34 guarantees with a maximum liability of \$1.8 million at the end of 2008. Total lines of credit declined, marginally to \$2.1 million during 2009.

During the year, no export credit insurance coverage or export finance guarantees were provided.

Industrial Credit Fund (ICF)

The Industrial Credit Fund (ICF) recorded decreases in both the value of loan approvals and disbursements in 2009 compared to 2008. The ICF approved nine loan applications totalling \$10.7 million compared to nine applications valued at \$14.5 million in 2008. New disbursements were \$7.5 million, from \$16.0 million in 2008. Health services accounted for \$4.5 million of the new approvals with the remainder going to manufacturing (\$3.7 million), tourism (\$1.3 million) and agro-industry (\$1.2 million). The balance of loans approved but undisbursed was \$11.6 million at year-end.

The ICF's net income is expected to decline from



Key Indicators of ICF Operations
(\$ Million)

Indicators	2005	2006	2007	2008	2009 ^P
Loan Approvals	18.7	21.2	7.5	14.5	10.7
Loan Disbursements	6.9	14.6	7.6	16.0	7.5
Principal Repayments	8.3	9.1	7.0	13.8	10.9
Loans Outstanding	35.6	41.2	41.8	44.0	40.6
Net Income	1.0	1.4	1.8	2.5	2.2
Capital Inflows	0.0	0.0	0.0	5.9	5.9
Net Worth	83.1	84.5	103.9	112.2	120.1

Source: Central Bank of Barbados
P: Provisional

\$2.5 million in 2008 to \$2.2 million in 2009, largely as a result of the reduced lending and deposit rates during the year. Boosted primarily by capital contributions of \$5.9 million received during the year, the ICF's net worth increased from \$112.2 million in 2008 to \$120.1 million at the end of 2009.

Barbados Investment Fund

During the financial year ended August 31, 2009, the Barbados Investment Fund continued to focus on enhanced monitoring and collection efforts to strengthen its existing portfolio and ensure that it reflects fair value. Subsequently, there were no new commitments or disbursements during the year, and this, coupled with investee repayments, contributed to a reduction in the investment portfolio. The protracted collection and divestment activities contributed to a 17.1% increase in impairment losses and the Fund recorded a net loss of \$1.2 million at August 31, 2009 compared to a loss of \$1.1 million in

the previous year.

Human Resources Department

The Department continued its involvement in the Job Evaluation exercise with the Consultants during the year. By year-end, the project was entering the final phase and is expected to be fully completed during the coming year. The Department was actively involved in the recruitment of new staff, coordinated the Annual Awards event and ensured the smooth functioning of Employee Assistant Programmes.

Internal Audit

Audit engagements for the year were focused primarily on the Currency Section of the Banking, Currency and Investments Department and the Security section of the Facilities Management Department. In particular, emphases were on assessment of security issues and review of vault processes.

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The vacant post of Director, Internal Audit was filled on September 1, 2009 and initial emphases of the new director incorporated a review and completion of engagements, departmental review and operational planning. Training was determined and facilitated for staff in the areas of audit supervision and IT audit technical training.

Management Information Systems Department (MISD)

The MIS Department upgraded the network infrastructure to include new network switches and embarked on a strategy of server consolidation and virtualisation. The Department successfully completed the convergence of the telecommunications infrastructure by using a single broadband link to facilitate services like SWIFT, BLOOMBERG, email and internet. In addition, the Department worked assiduously to ensure successful deployment of an IP telephony solution, more commonly called Voice over Internet Protocol (VOIP).

On the applications side, hampered by resource constraints at the user end, the Department deferred the deployment of the new public debt and accounting systems until the first half 2010.

The project for the development of a Business Intelligence solution for Research and Bank Supervision continued and at year-end was in the User Acceptance Testing phase. Sign-off of this project is scheduled for February 2010. The Electronic Data Interchange (EDI) project with the commercial banks, involving the electronic transfer of returns, is ongoing.

The Department continued its information security programme with a new information security policy being rolled out in 2009 under the guidance of the Information Security

Governance Committee.

Public Affairs

The Bank maintained an active outreach programme during 2009, incorporating traditional activities, particularly in the cultural area, and a new campaign the National Financial Education Programme.

Communication Strategy

The Bank began to revamp its communication strategy towards year-end, with the enhanced use of telecommunications to improve internal and external communication. As a result, the Bank started streaming videos on the Internet of the Governor's major speaking engagements. This programme will be expanded in 2010.

National Financial Education Programme

The Bank launched a National Financial Education Programme (NFEP) to help Barbadians better manage their personal finances. To disseminate its messages, the NFEP utilised various communication strategies including seminars for employees, community groups and non-governmental organisations, as well as promotions in the print and broadcast media. The module on Budgeting and Savings, one of six planned topics, was launched with presentations to about twenty work places, a small public exhibition, a series of articles in the Nation newspaper as well as interviews on television and radio.

Conference

More than two hundred central bankers, accountants, technocrats, bankers, academics and lawyers attended a seminar on "Governance and Regulation of the Financial Sector Post meltdown: What Has Changed?" This seminar examined the current state of affairs and the

BANK EVENTS



L-R: Dr. DeLisle Worrell, Governor, on his first day in office, greets Mr. Cleviston Haynes, Acting Deputy Governor.



L-R: Martina Pilé, winner of the 2009 Crop Over Visual Arts Exhibition pointing out winning piece, "Playin' Mas", to Mr. Cleviston Haynes, Acting Deputy Governor.



Former Governor, Dr. Marion Williams as she addresses her retirement function at Lloyd Erskine Sandiford Centre.



Central Bank of Barbados Chorale performing at the 2009 Christmas Concert.



2009 Frank Collymore Literary Endowment Awardees. L-R: Mr. Antonio Rudder, Interim Chairman; Governor, Dr. DeLisle Worrell; Dr. Lance Bannister, winner of the Prime Minister's Award; Dr. Karen Lord, first-prize winner; Ms. Heather Barker, third-prize winner and Mrs. Monica Drayton Worrell, wife of Governor Worrell.



Mr. Jeremy Rifkin, President of the Foundation on Economic Trends, as he delivers the 34th Sir Winston Scott Memorial Lecture.



BANK EVENTS



Recipients of The Governor's Award at the Bank's Annual Awards Ceremony: L-R: Maureen Wiltshire, Corrie Walkes, Noreen Trent, Tamara Hurley, former Governor, Dr. Marion Williams, André Burgess, Sadie Dixon, Tresha Nelson, Pia Parris, Laurie Blackman and David Bowen.



Forefront: L-R; Sandy Baird and Maureen Wiltshire
Background: L-R; Toni Sandiford and Kay Reid.
Dancing at the Bank's Staff Concert.



2009 Pan in the Plaza Extravaganza featuring the Combined Camp Band.



Participants in the Bank's annual summer internship programme:
Front Row: L-R: Olivia Husbands, Shane Lowe, Leandra Harewood, Melissa Wyclife, Kanisha Farley and Rosita Pinder
Back Row: L-R: Hope Husbands, Donneil Cain, Erskine Hinds, Rudolph Browne and Tiffany Grosvenor.



Participants in the lime and spoon race at the Central Bank's Annual Fun Day held at the Lester Vaughn Secondary School.

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way forward since the collapse of the sub-prime market in the United States of America and its repercussions across the globe. Speakers included: Senator the Honourable Darcy Boyce, Minister of State (Finance, Investment, Telecommunications and Energy); Mr. Geoffrey Bell, Executive Secretary, Washington-Based Group of Thirty; Dr. Marion Williams, former Governor, Central Bank of Barbados; Mr. Cleviston Haynes, Deputy Governor Ag., Central Bank of Barbados; Mr. Osbourne Nurse, Former Chairman, Trinidad and Tobago Securities Commission; Ms Jane D'Arista, Lecturer in Finance and Research Associate, Political Economy Research Institute, University of Massachusetts, Amherst; Mr. Amar Battacharya, Director, G24, International Monetary Fund and Mr. Skip Edmonds, Financial Sector Supervision Advisor, The Caribbean Regional Technical Assistance Center (CARTAC).

34th Sir Winston Scott Memorial Lecture

Mr. Jeremy Rifkin, President of the Foundation on Economic Trends, delivered an inspirational Sir Winston Scott Memorial Lecture. Speaking on the topic "The Third Industrial Revolution and a New Social Vision for the 21st Century", Mr. Rifkin advised that a master plan was necessary in Barbados to protect it from the predicted environmentally and economically - challenging times ahead.

Crop Over Visual Arts Exhibition

The Bank sponsored the month-long Crop Over Visual Arts Exhibition, for the 14th consecutive year. Ms. Rosemary Pilgrim won the **Central Bank of Barbados Purchase Award** for her painting "Bougainvillea" and Martina Pilé's "Playin' Mas" captured the **Governor's Award**.

Pan in the Plaza

The Barbadian public expressed satisfaction with and appreciation for the Bank's continued hosting of the Pan in the Plaza Extravaganza. The year 2009 saw the biggest camp and extravaganza in terms of numbers. 68 students attended the camp and hundreds packed the Frank Collymore Hall for the performance event that featured the young campers, Tropical Steel the Combermere Steel Orchestra and soloist Mark Forde.

Frank Collymore Literary Endowment

For the second consecutive year, Dr. Karen Lord was adjudged the top writer in the Frank Collymore Literary Endowment Competition. Her work entitled "**The Best of All Possible Worlds**" earned her Bds \$10,000.

Glenville Lovell captured 2nd prize for his manuscript "Sodom", while Heather Barkers's "The Millipede Eats the Mongoose" was awarded the 3rd prize.

The Prime Minister's Award went to Dr. Lance Bannister for his entry "**Barbados Evergreen**"

Research Department

The Research Department continued to produce high quality reports and analyses including three quarterly Economic Reviews, an Annual Economic Report, three quarterly Economic Outlook Reports, and the monthly Economic and Financial Statistics publication. In addition, a number of background documents and scenario analyses encompassing a variety of issues were prepared for the Bank and various ministries.

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The Department once again placed great emphasis on training, both internally and externally. The Department's Annual Review Seminar continued to be the main tool for the training of its officers in 2009. Over the course of this four-day seminar, economists presented papers on a range of topics, including the forecasting of non-performing loans, motorcar demand, and the determinants of tourism arrivals. The seminar attracted economic practitioners from the Cave Hill and Mona campuses of UWI, and the Caribbean Centre for Money and Finance. The Department's Internship Programme continued in 2009 with an additional five persons benefiting from the programme.

The Statistics Unit continued to work closely with the consultants on the development of Business Intelligent data-ware house. The Unit also worked extensively with the commercial banks during the implementation of the revised schedules. However, changes in the technology in most of the banks slowed the progress of this project. Efforts to enhance and widen the data coverage in the Economic and Financial Statistics publication continued with the inclusion of data on Credit Unions and expanding debt tables. The Balance of Payments survey and publication were modified to meet international standards.

The Library completed the upgrade of its computer system with the introduction of its web-based catalogue. The upgrade allowed for the Bank's catalogue to be accessed through the Bank's Intranet. In addition, the Library worked steadily to complete the bar-coding of its print collection and launched its own intranet web portal. This provided access to a variety of electronic resources including the EBSCO Research services, World Bank databases, and electronic newsletters and news services. The Records Management unit also expanded its

collection in the Records Centre.

Papers Presented at Conferences during 2009

The following were presented at Conferences in 2009:

"Convergence of Caribbean Stock Exchanges" by Stacia Howard, at the CCMF's Third Biennial International Conference on Business, Banking and Finance on Financial Services in Emerging Economies: Surviving The Global Economic Meltdown, The University of the West Indies, St. Augustine Campus, Trinidad, May 27 - 29.

"A Statistical Analysis of the External Current Account Balance" by Harold Codrington, Kevin Greenidge and Leandra Harewood, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 27 - 30.

"An Investigation of Asymmetries Between Crude Oil and Gasoline Prices in the ECCU and Barbados" by Travis Mitchell and Roland Craigwell, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 27 - 30.

"Construction Growth and Economic Output in Barbados" by Ryan Bynoe, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 27-30.

"Energy Consumption and Economic Growth in Latin America and the Caribbean: A Panel Co-integration Approach" by Troy Lorde and Kester Guy, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 27 - 30.

"Exchange Rate Determination and the Demand for Foreign Exchange in Small Open Economies" by DeLisle Worrell and Tracy Polius, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 27 - 30.

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"Fiscal Shocks - A Stabilization Tool" by Kester Guy and Tracy Maynard at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 27 – 30.

"Forecasting Nonperforming Loans in Barbados" by Kevin Greenidge and Tiffany Grosvenor, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 27-30.

"Islamic Finance- A Complement to Conventional Finance" by Alexis Lescott and Kevin Greenidge, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 27-30.

"Modelling and Forecasting Tourist Flows in Barbados Using Structural Time Series Models" by Kevin Greenidge and Mahalia Jackman, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 27-30.

"Tax Policy and Macroeconomic Activity in Barbados" by Kevin Greenidge and Lisa Drakes, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 27 – 31. This paper was also presented at the Ministry of Economic Affairs' Third Economic and Social Lecture Seminar Series, October 9, 2009.

"The Causal Relationship between Government Expenditure and Tax Revenue in Barbados" by Tracy Maynard and Kester Guy, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 27-30. This paper was also presented at the 41st Annual Conference of the Caribbean Centre for Money and Finance, Georgetown Guyana, November 10 – 13.

"The Demand for Motor Car Imports in Barbados" by Alvon Moore and Carlon Walkes, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 27-30.

"The Determinants of Consumption Expenditure on Durables in Barbados" by Kevin Greenidge, Carlos Holder and Alvon Moore, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 27-30.

"The Determinants of Tourist Arrivals -: How Important is the Supply Side" by Travis Mitchell and Rudolph Browne, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 27-30.

"The Productivity Wage Gap and the Current Account Balance: An Empirical Analysis" by Donneil Cain and Xiomara Archibald, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 27-30. This paper was also presented at the 41st Conference of the Caribbean Centre for Money and Finance, Georgetown Guyana, November 10 – 13.

"Tourism and Unexpected Shocks" by Winston Moore, Laisha Edwards and Rudolph Browne, at the Central Bank of Barbados Annual Review Seminar, Bridgetown, July 27-30.

"The Macroeconomic Impact of IMF-Supported Programmes in Small Open Economies: The Case of Barbados" by Daniel Boamah, Kevin Greenidge and Sasha Mapp, at the Annual Review Seminar. This paper was also presented at the 41st Annual Conference of the Caribbean Centre for Money and Finance, Georgetown Guyana, November 10 – 13.

The Bank's Economists published the following articles during 2009:

"Current Account Deficit Sustainability: The Case of Barbados" by Kevin Greenidge, Carlos Holder and Alvon Moore, Applied Economics, Vol. 40, No. 1, pp. 1466 - 1496, also available online at informaworld.

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“Exchange Rate Regimes and Monetary Autonomy: Empirical Evidence from Selected Caribbean Countries” by Kevin Greenidge, Roland Craigwell and Tracy Maynard, Central Bank of Barbados Economic Review, Vol.36, No.2, pp. 22-36, September.

“What are the Determinants of Health Status in Latin America and the Caribbean?” by Kevin Greenidge and Sunielle Stanford, Central Bank of Barbados Economic Review, Vol.36, No.1, pp. 22-36, June.

“The Macroeconomic Effects of Oil Price Fluctuations on a Small Open Oil-Producing Country: The Case of Trinidad and Tobago” by Chrystol Thomas, Mahalia Jackman and Troy Lorde, Energy Policy, Vol. 37, No.7, pp. 2708-2716.

“Stress Testing With Incomplete Data: A Practical Guide” by Stacia Howard in Bulletin No. 31 of the Irving Fisher Committee of the Bank For International Settlements.

“Determinants of Inflation in Selected Caribbean Countries” by Kevin Greenidge and Diana

DaCosta, Journal of Business, Finance and Economics in Emerging Economies, Vol. 4, No. 2. pp. 371-397.

“Estimating the Size of the Informal Economy in Barbados” by Kevin Greenidge, Carlos Holder and Stuart Mayers, Journal of Business, Finance and Economics in Emerging Economies, Vol. 4, No. 1. pp. 196-226.

“A New Measure of Taxation: An Application to Barbados” by Kevin Greenidge and Lisa Drakes, Journal of Public Economics, Vol.3, No.1, pp. 40-61.

“Modelling and Forecasting Tourist Flows to Barbados Using Structural Time Series Models” by Kevin Greenidge and Mahalia Jackman, Tourism and Hospitality Research, Tourism Hospitality Research, advanced online publication, August 31, 2009; doi:10.1057/thr.2009.23.

“Economic Volatility and Remittances: Evidence from SIDS” by Mahalia Jackman, Roland Craigwell and Winston Moore, Journal of Economic Studies, 2009, Vol. 36, no. 2, pp. 135–146.



CHRONICLE OF MONETARY POLICY ACTIONS FOR 2009

Interest Rates

1. Effective February 1, 2009, the minimum rate of interest payable on deposits was reduced from 4.0% per annum to 3.0% per annum.
2. Effective June 1, 2009, the discount rate was reduced from 10% to 8%.
3. Effective June 1, 2009, the discount rate payable on temporary advances from the Central Bank was reduced from 8% to 7% per annum.
4. Effective August 17, 2009, the minimum rate of interest payable on deposits was reduced from 3.0% to 2.5%.

Foreign Exchange Reserve Requirement

1. Effective July 9, 2009, the foreign exchange reserve requirement was reduced from 6% to 4%.
2. Effective October 15, 2009 the foreign exchange reserve requirement was reduced from 4% to 2%.

Introduction of Reserve Requirements for Part III Companies

- (1) The cash reserve requirement was introduced for companies licensed under Part III of the Financial Institution Act, Cap. 324A to be calculated and come into operation as follows:
 - (a) April 29, 2009 – ½% of total average deposits
 - (b) July 1, 2009 – 1% of total average deposits
 - (c) December 30, 2009 – 1 ½% of total average deposits
 - (d) June 30, 2010 – 2% of total average deposits
- (2) The security reserve requirement shall be calculated and come into operation as follows:
 - (a) June 30, 2009 – ½% of total domestic deposits
 - (b) December 31, 2009 – 1% of total domestic deposits
 - (c) June 30, 2010 – 1½% of total domestic deposits

ADOPTION OF FINANCIAL STATEMENTS 2009

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

The Board of Directors approved the Bank's three-year Strategic Plan. The Bank's management has allocated the necessary resources to achieve those objectives.

The Balance Sheet

The size of the Balance Sheet increased by 10% during 2009. External Assets accounted for 53.5% of this increase, rising by \$80.9 million as a result of two major inflows attributed to government's external borrowing of US\$120.0 million and the distribution of BDS\$170.0 million (SDR56 million) from the IMF. Excluding these transactions, external assets would have fallen by \$321.0 million reflecting weak foreign exchange earnings and the effect of the reduction in the foreign currency reserve from 6% to 2%. Domestic Assets rose by \$70.4 million, of which \$63.0 million was attributable to increased lending to government. On the liability side, notes and coins in circulation, the largest liability on the balance Sheet, increased modestly, a combination of slow economic activity and the growing trend of alternative forms of payment.

Statement of Profit and Loss

The Bank is a risk averse institution and accordingly, investments are not held to maximize earnings but to maintain economic stability and Government policy. The major source of income is interest from foreign securities and foreign term deposits and advances to Government and

these showed a decline of \$12 million or 24%. In 2009 interest from deposits declined by \$9.2 million as the Fedfunds rate remained at 25bp throughout 2009 as against a range of 300bp to 25bp in 2008. Other significant declines in income related to income from securities - \$3.1 million and gains on sale of foreign securities - \$2.2 million.

Operating Expenses

Total expenses declined by \$2 million during 2009. Salaries and Administrative Expenses remained relatively constant but there was a \$4.0 million increase related to purchase of notes and coins reflecting a change in the policy of amortising the cost of notes and coins over a period of two years rather than on receipts of such items.

The increase in currency cost was offset by a \$4.6 million reduction in the Bank's contribution to the pension plan. This lower expense reflects the improved performance of the Bank's pension scheme, whose unfunded deficit was virtually eliminated in 2009.

In addition, expenses were lower because of the decline in interest paid on the statutory foreign reserve deposits of banks and financial institutions. This interest rate is linked directly with the Fedfunds rate.

The Bank also made provisions of \$1.6 million and \$3.3 million for impairment of CMCF debt and foreign assets under management respectively. The CMCF debt matured at April 01, 2009 and the total provision for impairment at December 31, 2009 is \$11.6 million.

Results for the Year

The savings in expenditure were insufficient to offset the significant decline of \$16 million in income and as a result, the Bank incurred a

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loss of \$9.4 million. This loss does not impair the Bank's capital and will be recovered from future profits.

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. It is proposed that subject to legislative changes, the statements will be prepared in accordance with IFRS adopted by the Institute of Chartered Accountants of Barbados (ICAB).

In the interim, the Bank will continue to identify key areas of differences between current reporting standards and IFRS. This will require a restatement for prior financial years

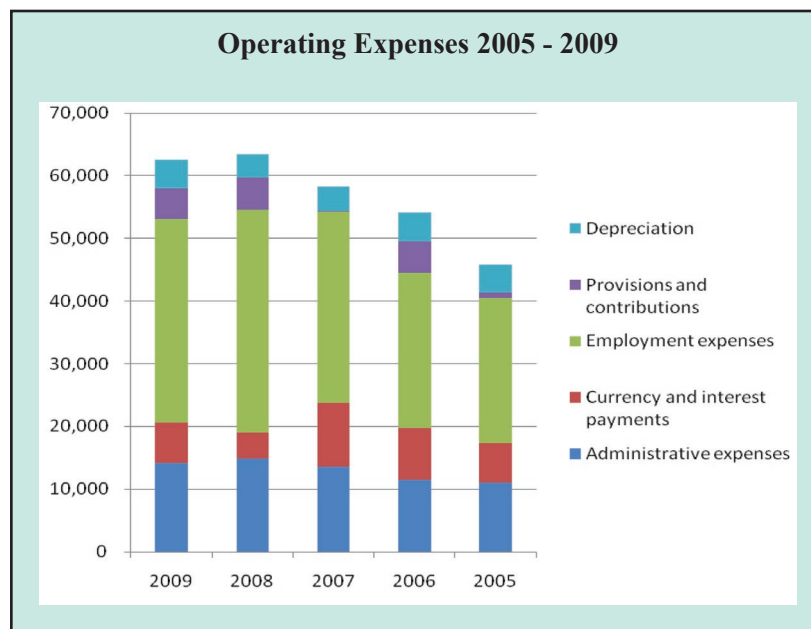
in accordance with IFRS in order to ensure a smooth transition to IFRS.

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

Adoption of Financial Statements

Annexed to this report are the Balance Sheet of the Central Bank of Barbados as at December 31, 2009, the Profit and Loss Account, The Profit and Loss Appropriation, Statement of Cash Flows, Auditors' Certificate and explanatory notes to financial statements.

The Board of Directors, on recommendation of the Audit Committee, has adopted the Financial Statements duly certified by the Auditors for the year ended December 31, 2009.



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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, 2009, the profit and loss account, profit and loss appropriation account and the 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 financial statements in accordance with the Central Bank of Barbados Act, Cap. 323C and the significant accounting policies stipulated in Note 1. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of 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 opinion.

Opinion

In our opinion the financial statements of the Bank for the year ended December 31, 2009 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 25, 2010

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CENTRAL BANK
of **BARBADOS**

Balance Sheet
December 31, 2009
with comparative figures for 2008

ASSETS

	<u>NOTES</u>	<u>2009</u>	<u>2008</u>
		BD\$	BD\$
RESERVE OF EXTERNAL ASSETS:			
Balances Held Abroad	2	95,809,533	264,217,997
Foreign Notes and Coins		8,636,740	4,795,796
Foreign Securities	3	<u>834,106,351</u>	<u>757,546,815</u>
		<u>938,552,624</u>	<u>1,026,560,608</u>
International Monetary Fund:			
Reserve Tranche	4	17,334,501	18,475,305
Holdings of Special Drawing Rights	4	<u>170,163,696</u>	<u>138,304</u>
		<u>187,498,197</u>	<u>18,613,609</u>
Total Reserve of External Assets		<u>1,126,050,821</u>	<u>1,045,174,217</u>
LOCAL ASSETS:			
Securities:			
Barbados Government Treasury Bills	5	26,770,500	-
Barbados Government Debentures	5	<u>75,000,000</u>	<u>44,000,000</u>
		<u>101,770,500</u>	<u>44,000,000</u>
Advances:			
Government		273,590,000	268,300,000
Fixed Assets (Net)	6	91,550,043	88,651,296
Other Assets	7	<u>44,651,980</u>	<u>40,292,461</u>
Total Local Assets		<u>511,562,523</u>	<u>441,243,757</u>
		<u>1,637,613,344</u>	<u>1,486,417,974</u>

See accompanying notes to financial statements.

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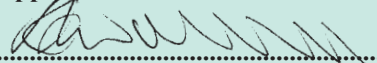
CENTRAL BANK
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Balance Sheet
December 31, 2009
with comparative figures for 2008

LIABILITIES, CAPITAL AND RESERVES

	<u>NOTES</u>	<u>2009</u>	<u>2008</u>
		BD\$	BD\$
LIABILITIES:			
Notes and Coins in Circulation	8	<u>628,980,860</u>	<u>622,400,396</u>
Deposits:			
Government		90,150,423	65,710,894
Banks		591,276,551	655,278,084
Financial Institutions		24,114,096	9,762,019
Other		<u>6,762,836</u>	<u>8,220,121</u>
		<u>712,303,906</u>	<u>738,971,118</u>
Other Liabilities:			
Allocation of Special Drawing Rights	9	194,408,872	26,319,236
Other	10	<u>76,062,024</u>	<u>63,364,380</u>
		<u>270,470,896</u>	<u>89,683,616</u>
Total Liabilities		<u>1,611,755,662</u>	<u>1,451,055,130</u>
Other Funds	11	<u>17,299,058</u>	<u>17,362,844</u>
CAPITAL AND RESERVES:			
Authorized capital: <u>BDS\$5,000,000</u>			
Paid up capital: Government of Barbados		2,000,000	2,000,000
Accumulated Deficit		(9,441,376)	-
General Reserve		<u>16,000,000</u>	<u>16,000,000</u>
Net Capital and Reserves		<u>8,558,624</u>	<u>18,000,000</u>
Commitments and Contingencies	12	<u>1,637,613,344</u>	<u>1,486,417,974</u>

Approved on behalf of the Board of Directors on February 25, 2009

.....Governor

.....Financial Controller

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Profit and Loss Account
For the year ended December 31, 2009
with comparative figures for 2008

	<u>NOTES</u>	<u>2009</u>	<u>2008</u>
		BD\$	BD\$
INCOME (LOSS):			
Commissions and Fees		10,618,602	11,217,542
Discounts:			
Treasury Bills		1,046,693	1,245,072
Interest:			
Advances		5,460,076	5,502,239
Deposits		722,103	9,962,174
Securities		31,220,708	34,317,283
Other Income	13	1,451,472	2,134,259
Foreign exchange loss		(340,379)	(361,069)
Gain on sale of Foreign Securities		<u>1,836,685</u>	<u>4,021,922</u>
Total Income		<u>52,015,960</u>	<u>68,039,422</u>
EXPENSES:			
<i>Operating:</i>			
Administrative Expenses		14,197,948	13,979,168
Depreciation and amortization		4,602,339	3,747,192
Interest		249,218	1,981,817
Minting of Coins		2,998,129	1,752,949
Printing of Notes		3,210,518	440,406
Unissued notes		-	1,500,000
Debt Impairment	14	4,952,301	4,519,459
Retirement Benefits	15	6,622,276	11,238,085
Salaries and Allowances		<u>24,624,607</u>	<u>24,319,464</u>
Operating Expenses		<u>61,457,336</u>	<u>63,478,540</u>
(Loss); Profit before Appropriation		<u>(9,441,376)</u>	<u>4,560,882</u>

See accompanying notes to financial statements.

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Profit and Loss Appropriation Account

For the year ended December 31, 2009

with comparative figures for 2008

	<u>2009</u>	<u>2008</u>
	BD\$	BD\$
(Loss); Profit before Appropriation	<u>(9,441,376)</u>	<u>4,560,882</u>
Deduct:		
Transfer to Consolidated Fund	<u>-</u>	<u>4,560,882</u>
Accumulated Deficit carried forward	<u>(9,441,376)</u>	<u>-</u>

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

See accompanying notes to financial statements.

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Statement of Cash Flows For the year ended December 31, 2009 with comparative figures for 2008

	<u>NOTES</u>	<u>2009</u>	<u>2008</u>
		BD\$	BD\$
Cash flows from operating activities			
Net (loss) profit before appropriation		(9,441,376)	4,560,882
Adjustments for:			
Depreciation		4,602,339	3,680,737
Amortization		-	66,455
(Gain) loss on sale of capital assets		(22,105)	50,279
Debt impairment	14	4,952,301	4,519,459
Operating (loss) profit before working capital changes		91,159	12,877,812
Increase in other assets		(4,359,519)	(9,578,165)
Net movement in foreign securities		(79,939,672)	23,635,070
Decrease (increase) in reserve tranche		1,140,804	(1,320,945)
(Increase) decrease in Holdings of Special Drawing Rights		(170,025,392)	73,232
Increase in local securities		(57,770,500)	(23,469,142)
Increase in discounts and advances		(5,290,000)	(165,800,000)
Decrease in deposits		(26,667,212)	(7,075,436)
Increase in other liabilities		12,697,644	5,435,467
Net cash used in operating activities		<u>(330,122,688)</u>	<u>(165,222,107)</u>
Cash flows from investing activities			
Purchase of fixed assets		(7,501,883)	(6,477,346)
Proceeds from sale of fixed assets		22,902	5,466
Net cash used in investing activities		<u>(7,478,981)</u>	<u>(6,471,880)</u>
Cash flows from financing activities			
Increase in allocation of Special Drawing Rights		168,089,636	1,614,333
Increase (decrease) in notes and coins in circulation		6,580,464	(12,772,201)
Decrease in Special Credit Trust			(1,000,000)
Net cash from (used in) financing activities		<u>174,670,100</u>	<u>(12,157,868)</u>
Net decrease in cash and cash equivalents		(162,931,569)	(183,851,855)
Cash and cash equivalents at beginning of year		249,146,913	432,998,768
Cash and cash equivalents at end of year		<u>86,215,344</u>	<u>249,146,913</u>
Cash and cash equivalents comprise:			
Current Account Balances	2	77,578,604	244,351,117
Foreign Notes and Coins		8,636,740	4,795,796
<i>See accompanying notes to financial statements.</i>		<u>86,215,344</u>	<u>249,146,913</u>

**Notes to Financial Statements**

December 31, 2009

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 disclosure 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 disclosure 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 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.

Notes to Financial Statements, Continued
December 31, 2009

1. SIGNIFICANT ACCOUNTING POLICIES, continued

- (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:

	<u>2009</u>	<u>2008</u>
	\$	\$
Current Accounts and deposits with foreign banks	77,578,604	244,351,117
Caricom Multilateral Clearing Facility (C.M.C.F)		
(Net of provision: 2009: \$11,638,571 (2008: \$10,002,620)	18,230,929	19,866,880
	<u>95,809,533</u>	<u>264,217,997</u>

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Notes to Financial Statements, Continued December 31, 2009

2. BALANCES HELD ABROAD, continued

The CMCF Account matured on April 01, 2009. The Bank expects to receive settlements from the CMCF Accumulated Fund, the CARICOM Petroleum Fund and the HIPC Trust Fund. The impairment provision of \$11,638,571 is recognized in the financial statements as follows:-

Year	<u>Amount</u>
	\$
2009	1,636,951
2008	4,400,000
2007 and prior years	<u>5,601,620</u>
	<u><u>11,638,571</u></u>

3. FOREIGN SECURITIES

Foreign securities comprise:

	<u>2009</u>		<u>2008</u>	
	<u>Amortized Cost</u>	<u>Market Value</u>	<u>Amortized Cost</u>	<u>Market Value</u>
	\$	\$	\$	\$
At Market Value:				
(a) Bonds/Debentures	817,000,772	833,772,334	740,377,450	757,212,798
(b) Equities	<u>306,521</u>	<u>334,017</u>	<u>306,521</u>	<u>334,017</u>
	<u><u>817,307,293</u></u>	<u><u>834,106,351</u></u>	<u><u>740,683,971</u></u>	<u><u>757,546,815</u></u>

The unrealized gain of \$16,799,058 (2008: \$16,862,844) 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, 2009. The balances held at December 31, 2009 amounted to SDR 5,739,904 (2008: SDR 5,643,134) and SDR 56,345,624 (2008: SDR 42,244), respectively. The rate of translation of SDRs into Barbados dollars at December 31, 2009 is BDS\$1 = SDR 0.331126 (2008: BDS\$1 = SDR 0.305442).

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Notes to Financial Statements, Continued December 31, 2009

5. SECURITIES

Local securities comprise:

	<u>2009</u>		<u>2008</u>	
	<u>Nominal Value</u>	<u>Cost</u>	<u>Nominal Value</u>	<u>Cost</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Barbados Government Treasury Bills	<u>27,000,000</u>	<u>26,770,500</u>	<u>-</u>	<u>-</u>
Barbados Government Debentures	<u>75,000,000</u>	<u>75,000,000</u>	<u>44,000,000</u>	<u>44,000,000</u>
	<u>102,000,000</u>	<u>101,770,500</u>	<u>44,000,000</u>	<u>44,000,000</u>

6. Fixed Assets

Fixed assets comprise:

	<u>Freehold Land and Buildings</u>	<u>Furniture, Plant and Equipment</u>	<u>Motor Vehicles</u>	<u>Total</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
<i>Cost:</i>				
December 31, 2007	95,940,319	38,282,802	794,634	135,017,755
Additions	25,178	6,281,865	170,303	6,477,346
Disposal/write-offs	(50,045)	(349,101)	-	(399,146)
December 31, 2008	95,915,452	44,215,566	964,937	141,095,955
Additions	-	7,426,309	75,574	7,501,883
Disposal/write-offs	-	(1,669,613)	(60,628)	(1,730,241)
December 31, 2009	95,915,452	49,972,262	979,883	146,867,597
<i>Depreciation:</i>				
December 31, 2007	17,753,097	30,633,775	720,451	49,107,323
Charge for the year	1,367,838	2,229,267	83,632	3,680,737
Eliminated on disposals	-	(343,401)	-	(343,401)
December 31, 2008	19,120,935	32,519,641	804,083	52,444,659
Charge for the year	1,366,527	3,148,515	87,297	4,602,339
Eliminated on disposals	-	(1,668,817)	(60,627)	(1,729,444)
December 31, 2009	20,487,462	33,999,339	830,753	55,317,554
<i>Net Book Values:</i>				
December 31, 2009	<u>75,427,990</u>	<u>15,972,923</u>	<u>149,130</u>	<u>91,550,043</u>
December 31, 2008	<u>76,794,517</u>	<u>11,695,925</u>	<u>160,854</u>	<u>88,651,296</u>

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Notes to Financial Statements, Continued December 31, 2009

7. OTHER ASSETS

Other assets include:

	<u>2009</u>	<u>2008</u>
	\$	\$
Accrued income	1,960,992	1,244,055
Cheques in process of collection	5,320,018	7,239,529
Clico Mortgage & Finance	7,729,466	-
CRL Limited (a)	9,000,000	9,000,000
Fiscal Agency Payment Account	3,869	3,869
Prepayments	3,832,326	6,209,863
Staff Advances	15,686,021	14,762,034
Sundry Balances	1,119,288	1,833,111
	<u>44,651,980</u>	<u>40,292,461</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 Limited. The Government has undertaken to repay the debt on behalf of CRL Limited. At December 31, 2009, the cumulative interest not recognized was \$4,321,973 (2008: \$3,781,973).

8. NOTES AND COINS IN CIRCULATION

At December 31, 2009, the nominal value of numismatic coins sold, totaled approximately \$10.4 million (2008:\$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.

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10. OTHER

This amount comprises:

	<u>2009</u>	<u>2008</u>
	\$	\$
Accounts Payable	4,160,497	5,446,034
Special Development Bonds - Sinking Fund	403,988	104,435
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	1,161,169
Debenture Interest Payment Account	1,091,256	823,074
Deposit Insurance Company Accounts	136,678	932,119
Domestic Clearing	4,019,757	1,236,882
Dormant Accounts - Commercial Banks*	18,538,815	16,379,685
Export Development Fund	201,169	201,169
Housing Credit Fund General Account	8,080,415	9,467,121
Industrial Credit Fund	30,188,869	10,059,530
Redemption of Debentures Account	5,279,570	9,859,520
Sinking Fund Contribution Account	94,381	38,547
Small Business Fund	330,000	330,000
Staff Pension Fund	320,734	166,593
Staff Welfare Fund	1,405,090	1,614,441
Sundry Balances	407,317	7,475,503
	<u>76,062,024</u>	<u>63,364,380</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, 1997-16.

11. OTHER FUNDS

This amount comprises the following balances:

	<u>2009</u>	<u>2008</u>
	\$	\$
Special Credit Trust	500,000	500,000
Unrealised gain on revaluation of investments (note 3)	16,799,058	16,862,844
	<u>17,299,058</u>	<u>17,362,844</u>

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

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12. COMMITMENTS AND CONTINGENCIES

(a) At December 31, 2009 the Bank had guaranteed settlement of approximately \$1,633,493 (2008: \$1,061,585) under the following scheme:

	<u>2009</u>		<u>2008</u>	
	<u>Value of Contract</u>	<u>Guarantee</u>	<u>Value of Contract</u>	<u>Guarantee</u>
	\$	\$	\$	\$
Credit Insurance Scheme for Small Businesses	<u>2,068,183</u>	<u>1,633,493</u>	<u>1,471,769</u>	<u>1,061,585</u>

(b) Additionally, at December 31, 2009, the Bank had contracts for capital expenditure in the amount of \$2,502,725 (2008: \$4,074,367).

13. RELATED PARTIES

At December 31, 2009, the Bank owned and/or managed certain entities. The gross assets as disclosed in the entities' financial statements are as follows:

	<u>2009</u>	<u>2008</u>
	\$	\$
Export Credit Insurance Fund	9,762,171	9,468,644
Small Business Guarantee Fund	4,433,253	4,284,793
Industrial Credit Fund	128,478,140	113,346,350
Housing Credit Fund	<u>152,266,923</u>	<u>147,097,000</u>
	<u>294,940,487</u>	<u>274,196,787</u>

Other income includes management fees received as follows:

	<u>2009</u>	<u>2008</u>
	\$	\$
Industrial Credit Fund	215,328	173,951
Housing Credit Fund	<u>524,307</u>	<u>506,299</u>
	<u>739,635</u>	<u>680,250</u>

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14. DEBT IMPAIRMENT

Debt Impairment comprises provisions for impairment of:

	<u>2009</u>	<u>2008</u>
	\$	\$
CMCF debt (see note 2)	1,635,951	4,400,000
Foreign securities	3,316,350	-
Other Assets	-	119,459
	<u>4,952,301</u>	<u>4,519,459</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, 2009 revealed the following:

	<u>2009</u>	<u>2008</u>
	\$	\$
Fair value of plan assets	106,341,278	95,781,117
Actuarial present value of liabilities	<u>106,399,574</u>	<u>104,651,037</u>
Unfunded liability	<u>58,296</u>	<u>8,869,920</u>

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

	<u>2009</u>	<u>2008</u>
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 11.80% (2008: 12.14%) of covered payroll be used for new benefits, plus an additional rate of 0.03% (2008: 3.59%) to allow the amortization of the unfunded liability over a period of fifteen/sixteen years. The total recommended funding rate of 11.83% (2008: 15.74%) 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 were reclassified to conform with the current year's presentation.



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