



### ADOPTION OF FINANCIAL STATEMENTS 2005

The net operating surplus for the financial year ended December 31, 2005 was \$1,074,162.

Income for the year totalled \$47,269,413 and is marginally lower than in the previous year. The interest rate on Fedfunds increased from 2.25% at the beginning of the year to 4.25% by year-end. However, Foreign Reserves available for investment declined by \$162.8 million during the period January – November 2005. This decline is attributed to sales to commercial banks for imports and external debt service. During early December 2005, reserves were increased by \$250.0 million, namely through proceeds from Government Foreign Loan borrowings.

The Bank continued rebalancing the external asset portfolio by liquidating low earning securities and replacing same with higher yielding securities. This rebalancing generated income of \$2.10 million and is expected to continue in 2006 as Fedfunds rate continues an upward trend.

Interest earned on Advances to Government under the Ways and Means Facility amounted to \$1.9 million.

During the year, the Bank of Guyana suspended servicing of the CMCF debt.

Interest earned included a non-recurring amount of \$1.1 million, representing capital appreciation and interest on a Sinking Fund asset which matured during the year.

The Bank performs treasury management operations for the Housing Credit Fund. At December 31, 2005 fees earned for the period February 2004 to December 2005 amounted to \$0.86 million and outstanding assets at December 2005 were \$133.7 million.

Operating expenses totalled \$46.2 million and include a provision of \$0.8 million in respect of CMCF debt impairment. The increase over 2004 is attributed to the replenishment of the stock of notes and coins available for circulation.

The Board of Directors, with the approval of the Minister of Finance, appropriated \$1,074,162 to the Consolidated Fund.

Annexed to this report are the Balance Sheet of the Central Bank of Barbados as at December 31, 2005, the Profit and Loss Appropriation, the Profit and Loss Account, Statement of Cash Flows, Auditor's Certificate and explanatory notes to financial statements.

The Board of Directors has adopted the Financial Statements duly certified by the Auditors of the Central Bank for the year ended December 2005.





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## AUDITORS' CERTIFICATE TO THE BOARD OF DIRECTORS

We have audited the accompanying balance sheet of the Central Bank of Barbados as of December 31, 2005 and the related profit and loss and profit and loss appropriation accounts and the statement of cash flows for the year then ended. These financial statements are the responsibility of the management of the Central Bank of Barbados. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Central Bank of Barbados as of December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with the Central Bank of Barbados Act, Cap. 323C, and the significant accounting policies stipulated in Note 1.

Bridgetown, Barbados  
February 23, 2006

  
Chartered Accountants



**Balance Sheet**  
December 31, 2005  
with comparative figures for 2004

<b>ASSETS</b>			
	Notes	<u>2005</u>	<u>2004</u>
		<b>BDSS</b>	<b>BDSS</b>
<b>RESERVE OF EXTERNAL ASSETS:</b>			
Balances Held Abroad	2	147,164,561	123,630,945
Foreign Notes and Coins		1,223,167	14,811,652
Foreign Securities	3	<u>668,795,516</u>	<u>620,514,007</u>
		<u>817,183,244</u>	<u>758,956,604</u>
<b>International Monetary Fund:</b>			
Reserve Tranche	4	<u>16,251,678</u>	<u>15,077,522</u>
<b>Total Reserve of External Assets</b>		<u>833,434,922</u>	<u>774,034,126</u>
<b>LOCAL ASSETS:</b>			
<b>Securities:</b>			
	5		
Barbados Government Treasury Bills		74,068,500	-
Barbados Government Debentures		<u>635,000</u>	<u>635,000</u>
		<u>74,703,500</u>	<u>635,000</u>
<b>Advances:</b>			
Government		124,500,000	52,100,000
<b>Fixed Assets (Net)</b>	6	90,027,071	92,626,071
<b>Other Assets</b>	7	<u>34,294,473</u>	<u>37,184,195</u>
<b>Total Local Assets</b>		<u>323,525,044</u>	<u>182,545,266</u>
		<u>1,156,959,966</u>	<u>956,579,392</u>

*See accompanying notes to accounts.*



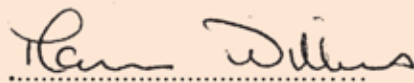
**Balance Sheet**  
December 31, 2005  
with comparative figures for 2004

**LIABILITIES, CAPITAL AND RESERVES**

	Notes	<u>2005</u>	<u>2004</u>
		<b>BD\$</b>	<b>BD\$</b>
<b>LIABILITIES:</b>			
<b>Notes and Coins in Circulation</b>	8	<u>575,862,132</u>	<u>513,328,827</u>
<b>Deposits:</b>			
Government		297,709,858	74,451,745
Banks		198,800,499	258,282,977
Financial Institutions		1,839,795	2,061,400
Other		<u>4,231,572</u>	<u>2,180,570</u>
		<u>502,581,724</u>	<u>336,976,692</u>
<b>Other Liabilities:</b>			
Allocation of Special Drawing Rights	9	24,584,925	23,532,201
Other	10	<u>44,914,710</u>	<u>59,200,792</u>
		<u>69,499,635</u>	<u>82,732,993</u>
<b>Total Liabilities</b>		<u>1,147,943,491</u>	<u>933,038,512</u>
<b>Other Funds</b>	11	<u>(2,983,525)</u>	<u>11,540,880</u>
<b>CAPITAL AND RESERVES:</b>			
Authorised capital: BDS\$5,000,000			
Paid up capital: Government of Barbados		2,000,000	2,000,000
General Reserve		<u>10,000,000</u>	<u>10,000,000</u>
<b>Net Capital and Reserves</b>		<u>12,000,000</u>	<u>12,000,000</u>
<b>Commitments</b>	12	<u>1,156,959,966</u>	<u>956,579,392</u>

*See accompanying notes to accounts.*

**Approved on behalf of the Board of Directors:**



**Governor**



**Financial Controller**



**Profit and Loss Account**  
For the year ended December 31, 2005  
with comparative figures for 2004

	Notes	<u>2005</u>	<u>2004</u>
		<b>BDSS</b>	<b>BDSS</b>
<b>INCOME:</b>			
Commissions and Fees		10,381,697	10,987,160
Discounts:			
Treasury Bills		1,876,210	1,102,463
Interest:			
Advances		2,452,275	1,339,817
Deposits		1,739,462	4,301,703
Securities		24,987,751	23,594,778
Other Income	13	3,772,672	1,342,900
Difference in Exchange		-	264,665
Gain on Sale of Foreign Securities		2,059,346	4,847,235
		<u>47,269,413</u>	<u>47,780,721</u>
<b>Total Income</b>			
<b>EXPENSES:</b>			
<i>Operating:</i>			
Administrative Expenses		11,095,468	11,216,006
Depreciation		4,417,603	5,049,525
Difference in Exchange		427,192	-
Interest		29,432	28,085
Minting of Coins		1,846,213	1,341,366
Printing of Notes		4,407,448	2,977,054
Provision for Debt Impairment	2	802,620	-
Retirement Benefits	14	4,064,461	4,775,833
Salaries and Allowances		19,104,814	18,745,991
		<u>46,195,251</u>	<u>44,133,860</u>
<b>Operating Expenses</b>			
<i>Net profit before undernoted items</i>		<u>1,074,162</u>	<u>3,646,861</u>
<b>Contributions:</b>			
	15		
Barbados Investment Fund		-	500,000
Deposit Insurance Fund		-	300,000
		<u>-</u>	<u>800,000</u>
<b>Net Profit Before Appropriation</b>		<u>1,074,162</u>	<u>2,846,861</u>

*See accompanying notes to accounts.*

**Profit and Loss Appropriation Account**

For the year ended December 31, 2005  
with comparative figures for 2004

	<u>2005</u>	<u>2004</u>
	<b>BDSS</b>	<b>BDSS</b>
Net profit before Appropriation	<u>1,074,162</u>	<u>2,846,861</u>
Deduct:		
Transfer to Consolidated Fund	<u>1,074,162</u>	<u>2,846,861</u>
Balance carried forward	<u><u>-</u></u>	<u><u>-</u></u>

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

*See accompanying notes to accounts.*



**Statement of Cash Flows**  
For the year ended December 31, 2005  
with comparative figures for 2004

	<u>Notes</u>	<u>2005</u>	<u>2004</u>
		<b>BDSS</b>	<b>BDSS</b>
<b>Cash flows from operating activities</b>			
Net profit before appropriation		1,074,162	2,846,861
Adjustments for:			
Depreciation		4,417,603	5,049,525
Gain on sale of capital assets		(22,111)	(1,378)
Provision for debt impairment	2	802,620	-
Operating profit before working capital changes		6,272,274	7,895,008
Decrease in CMCF balance		-	8,791,378
Decrease in other assets		2,889,722	12,121,822
Net (increase) decrease in foreign securities		(10,165,444)	64,247,184
Increase in Holdings of Special Drawing Rights		(1,174,156)	(996,233)
Increase in local securities		(74,068,500)	-
Increase in discounts and advances		(72,400,000)	(52,100,000)
Increase (decrease) in deposits		164,530,870	(325,637,897)
(Decrease) increase in other liabilities		(14,286,082)	5,165,615
<b>Net cash from (used in) operating activities</b>		<u>1,598,684</u>	<u>(280,513,123)</u>
<b>Cash flows from investing activities</b>			
Purchase of fixed assets		(1,818,611)	(3,859,820)
Proceeds from sale of fixed assets		22,117	19,612
<b>Net cash used in investing activities</b>		<u>(1,796,494)</u>	<u>(3,840,208)</u>
<b>Cash flows from financing activities</b>			
Increase in allocation of Special Drawing Rights		1,052,726	1,100,891
Net increase in notes and coins in circulation		62,533,305	38,666,146
<b>Net cash from financing activities</b>		<u>63,586,031</u>	<u>39,767,037</u>

*See accompanying notes to accounts.*



**Statement of Cash Flows (Cont'd)**  
For the year ended December 31, 2005  
with comparative figures for 2004

	<u>Notes</u>	<u>2005</u>	<u>2004</u>
		<b>BDSS</b>	<b>BDSS</b>
Net increase (decrease) in cash and cash equivalents		63,388,221	(244,586,294 )
Cash and cash equivalents at beginning of year		<u>138,732,946</u>	<u>383,319,240</u>
Cash and cash equivalents at end of year		<u>202,121,167</u>	<u>138,732,946</u>
<b>Cash and cash equivalents comprise:</b>			
Current account balances	2	108,405,981	84,069,745
Foreign Notes and Coins		1,223,167	14,811,652
Foreign Treasury Bills	3	<u>92,492,019</u>	<u>39,851,549</u>
		<u>202,121,167</u>	<u>138,732,946</u>

*See accompanying notes to accounts.*

Notes to Accounts  
December 31, 2005**1. SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with the Central Bank of Barbados Act, Cap. 323C and the following significant accounting policies:

(a) *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 recognised when received.

(b) *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.

(c) *Foreign Securities:*

Treasury bills and unquoted securities are valued at amortised 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.

(d) *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.

(e) *Local Securities:*

Local securities are valued at cost.

(f) *Depreciation:*

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

(g) *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 made.

Notes to Accounts, Continued  
December 31, 2005**2. BALANCES HELD ABROAD**

	<u>2005</u>	<u>2004</u>
	\$	\$
Balances held abroad comprise:		
Current Account Balances	108,405,981	84,069,745
CARICOM Multilateral Clearing Facility (CMCF)	<u>38,758,580</u>	<u>39,561,200</u>
	<u>147,164,561</u>	<u>123,630,945</u>

Under a rescheduling arrangement with other participants of the Caricom Multilateral Clearing Facility (C.M.C.F.), the Bank agreed to consolidate balances of interest and principal due to the Bank by C.M.C.F. as at September 30, 1989. The agreed consolidated total was \$154,744,770, which is repayable over ten years after a moratorium of ten years commencing October 1, 1989. Interest is charged at the rate of 5% per annum.

By interim arrangement of December 2, 1994, it was agreed that Barbados may offset against the principal amount due under C.M.C.F., balances on bilateral accounts due by Barbados to Guyana.

In November 2003, Barbados withdrew from the C.M.C.F. in order to permit other creditors to deliver debt relief to Guyana through C.M.C.F. under the Enhanced-HIPC. By letter of February 24, 2005, the Bank of Guyana served notice of its intention to suspend further debt service payments to the C.M.C.F. with effect from April 01, 2005. The participating members of the C.M.C.F. have since agreed to distribute part of the C.M.C.F. accumulated fund to creditor members of the C.M.C.F. so as to facilitate debt reduction for Guyana under the Enhanced-HIPC initiative.

As at December 31, 2005, the Bank has established a provision of \$802,620 in respect of the possible impairment of this debt.

Notes to Accounts, Continued  
December 31, 2005**3. FOREIGN SECURITIES**

Foreign securities comprise:

	2005		2004	
	Amortised Cost	Market Value	Amortised Cost	Market Value
	\$	\$	\$	\$
At Market Value:				
(a) Bonds/Debentures	580,480,501	575,969,480	569,447,525	576,374,478
(b) Equities	306,521	334,017	1,174,053	4,287,980
	580,787,022	576,303,497	570,621,578	580,662,458
At Cost:				
(c) Treasury Bills	92,492,019	92,492,019	39,851,549	39,851,549
	673,279,041	668,795,516	610,473,127	620,514,007

The unrealized loss of \$4,483,525 (2004: gain of \$10,040,880) arose on the revaluation of Securities and is included in Other Funds. See note 11.

**4. RESERVE TRANCHE**

The Reserve Tranche pertains to the value of Special Drawing Rights at December 31, 2005. The balance held at December 31, 2005 amounted to SDR 5,314,120 (2004: SDR 5,150,738) and the rate of translation of SDRs into Barbados dollars at December 31, 2005 was SDR 0.326989 (2004 – SDR .341617).

Notes to Accounts, Continued  
December 31, 2005**5. SECURITIES**

Local securities comprise:

	2005		2004	
	Nominal Value	Cost	Nominal Value	Cost
	\$	\$	\$	\$
Barbados Government Treasury Bills	75,000,000	74,068,500	-	-
Barbados Government Debentures	635,000	635,000	635,000	635,000

**6. FIXED ASSETS**

Fixed assets comprise:

	2005		2004	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
	\$	\$	\$	\$
Freehold Land and Buildings				
Office	85,130,083	13,849,624	71,280,459	72,530,451
Frank Collymore Hall Residence	6,982,910	1,052,430	5,930,480	6,035,224
Masonic Lodge	2,477,281	117,988	2,359,293	2,371,085
Masonic Lodge	1,319,254	-	1,319,254	1,319,254
Furniture & Equipment	35,270,867	26,259,208	9,011,659	10,205,236
Vehicles	948,992	823,066	125,926	164,821
<b>Total</b>	<b>132,129,387</b>	<b>42,102,316</b>	<b>90,027,071</b>	<b>92,626,071</b>

Notes to Accounts, Continued  
December 31, 2005**7. OTHER ASSETS**

Other assets include:

	<u>2005</u>	<u>2004</u>
	\$	\$
Accrued income on local investments	1,856,243	1,256,754
Cheques in process of collection	6,625,430	9,267,773
CRL Limited <sup>(1)</sup>	9,000,000	9,000,000
Fiscal Agency Payment Account	495,019	541,331
Prepayments	984,260	747,233
Staff Advances	14,419,222	13,008,421
Sundry Balances	<u>914,299</u>	<u>3,362,683</u>
	<u>34,294,473</u>	<u>37,184,195</u>

<sup>(1)</sup> The CRL Limited amount represents a six month revolving loan facility, which bears interest at a rate of 6% per annum. Prior to 1997, the loan was due from the Barbados Development Bank and was guaranteed by the Government of Barbados. During 1998, the facility was transferred to CRL Limited. The Government has undertaken to repay the debt on behalf of CRL Limited. As at the balance sheet date, the cumulative interest recognised amounted to \$1,244,054 (2004: \$1,244,054) and the amount not recognised amounted to \$2,160,494 (2004: \$1,620,494) of which \$540,000 (2004: \$540,000) relates to the current year.

**8. NOTES AND COINS IN CIRCULATION**

At December 31, 2005, the nominal value of numismatic coins sold totaled approximately \$10.4 million (2004 - \$10.4 million). See note 1 (d).

**9. ALLOCATION OF SPECIAL DRAWING RIGHTS**

This amount represents the liability to the International Monetary Fund in respect of Special Drawing Rights allocated by the Fund.

Notes to Accounts, Continued  
 December 31, 2005

**10. OTHER**

This amount comprises:

	<u>2005</u>	<u>2004</u>
	\$	\$
Accounts Payable	1,867,599	2,005,507
Barbados Investment Fund	-	500,000
Barbados Tourism Authority Sinking Fund	515,381	255,690
BTII Special Development Bond Sinking Fund	304,313	2,250,000
Contribution payable - Deposit Insurance Fund	2,900,000	2,900,000
Contribution Payable - Establishment of a Chair at UWI	1,200,000	1,200,000
Contribution payable - Secondary Mortgage Market Project	242,319	242,319
Debenture Interest Payment Account	495,019	536,329
Domestic Clearing	3,764,187	6,671,950
Dormant Accounts - Commercial Banks*	12,333,986	9,653,848
Export Development Fund	201,169	219,169
Housing Credit Fund General Account	1,113,482	9,492,073
Industrial Credit Fund	15,154,460	16,609,725
Redemption of Debentures Account	372,120	871,120
Sinking Fund Contribution Account	424,711	27,596
Small Business Fund	330,000	330,000
Staff Pension Fund	12,143	1,082,043
Staff Welfare Fund	1,959,330	2,147,204
Sundry Balances	1,724,491	2,206,219
	<u>44,914,710</u>	<u>59,200,792</u>

\*This account represents balances deposited with the Central Bank of Barbados in accordance with Section 88(3) of the Financial Institutions Act, 1997-16.

Notes to Accounts, Continued  
December 31, 2005**11. OTHER FUNDS**

This amount comprises the following balances:

	<u>2005</u>	<u>2004</u>
	\$	\$
Special Credit Trust	1,500,000	1,500,000
Unrealised (loss) gain on revaluation of investments (note 3)	<u>(4,483,525)</u>	<u>10,040,880</u>
	<u>(2,983,525)</u>	<u>11,540,880</u>

The Special Credit Trust was established under Section 41 of the Central Bank of Barbados Act.

**12. COMMITMENTS**

At December 31, 2005 the Bank had guaranteed settlement of approximately \$1,881,604 (2004: \$933,693) under the following scheme:

	<u>Value of Contracts</u>	<u>Guarantee</u>
	\$	\$
Export Credit Insurance & Guarantee Scheme	49,580	-
Credit Insurance Scheme for Small Businesses	<u>2,395,965</u>	<u>1,881,604</u>
	<u>2,445,545</u>	<u>1,881,604</u>

Additionally, at December 31, 2005, the Bank had contracts for capital expenditure in the amount of \$1.073 million (2004: \$0.7 million).



Notes to Accounts, Continued  
December 31, 2005

**13. OTHER INCOME**

Included in other income are the following items:

- Management fees received from Housing Credit Fund in the amount of \$860,252.
- Interest received in the amount of \$1,138,907 on a Sinking Fund Asset which matured on November 15, 2005. Of this amount, \$199,992 relates to the current period, \$155,688 relates to 2004 and \$783,227 relates to prior periods.

**14. RETIREMENT BENEFITS**

The Bank has established a non-contributory retirement plan for the benefit of its employees. The plan is a defined benefit plan. The assets of the plan are held in separate trust administered funds. A full actuarial valuation is obtained from an independent valuer at least every three years and a review is done annually. The most recent valuation carried out at December 31, 2005 revealed the following:

	<u>2005</u>	<u>2004</u>
	\$	\$
Fair value of plan assets	71,538,201	64,555,937
Actuarial present value of liabilities	<u>84,184,423</u>	<u>81,754,364</u>
Unfunded liability	<u>12,646,222</u>	<u>17,198,427</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>2005</u>	<u>2004</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 17.40% (2004: 17.24%) of covered payroll be used for new benefits, plus an additional rate of 6.11% (2004: 7.82%) to allow the amortization of the unfunded liability over a period of sixteen/seventeen years. The total recommended funding rate of 23.51% (2004: 25.06%) of covered payroll should obtain until the next valuation.



Notes to Accounts, Continued  
December 31, 2005

**15. CONTRIBUTIONS**

These contributions are made in accordance with Section 8(b) of the Central Bank of Barbados Act, Cap. 323C. As at the balance sheet date, the Bank had made cumulative contributions of \$13.5 million, \$2.9 million and \$11 million to the Barbados Investment Fund, Deposit Insurance Fund and Industrial Credit Fund respectively.

**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 amounts for 2004 have been reclassified to conform to the current year's presentation.