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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, 2008, 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 present fairly, in all material respects, the financial position of the Bank as at December 31, 2008, its financial performance 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.

Chartered Accountants
Bridgetown, Barbados
February 25, 2009

2008 ANNUAL REPORT



CENTRAL BANK
of **BARBADOS**

Balance Sheet
December 31, 2008
with comparative figures for 2007

ASSETS

	<u>NOTES</u>	<u>2008</u>	<u>2007</u>
		BDSS	BDSS
RESERVE OF EXTERNAL ASSETS:			
Balances Held Abroad	2	264,217,997	400,341,199
Foreign Notes and Coins		4,795,796	1,460,769
Foreign Securities	3	<u>757,546,815</u>	<u>825,749,993</u>
		<u>1,026,560,608</u>	<u>1,227,551,961</u>
International Monetary Fund:			
Reserve Tranche	4	<u>18,613,609</u>	<u>17,365,896</u>
		<u>1,045,174,217</u>	<u>1,244,917,857</u>
Total Reserve of External Assets			
LOCAL ASSETS:			
Securities:			
Barbados Government Treasury Bills	5	-	19,895,858
Barbados Government Debentures	5	<u>44,000,000</u>	<u>635,000</u>
		<u>44,000,000</u>	<u>20,530,858</u>
Advances:			
Government		268,300,000	102,500,000
Fixed Assets (Net)	6	88,651,296	85,910,432
Other Assets	7	<u>40,292,461</u>	<u>30,900,210</u>
		<u>441,243,757</u>	<u>239,841,500</u>
		<u>1,486,417,974</u>	<u>1,484,759,357</u>
Total Local Assets			

See accompanying notes to accounts.

2008 ANNUAL REPORT




CENTRAL BANK
of **BARBADOS**


Balance Sheet
December 31, 2008
with comparative figures for 2007

LIABILITIES, CAPITAL AND RESERVES

	<u>NOTES</u>	<u>2008</u>	<u>2007</u>
		BD\$	BD\$
LIABILITIES:			
Notes and Coins in Circulation	8	622,400,396	635,172,597
Deposits:			
Government		65,710,894	99,135,208
Banks		655,962,312	629,790,212
Financial Institutions		9,077,791	5,871,997
Other		9,046,121	7,514,255
		<u>739,797,118</u>	<u>742,311,672</u>
Other Liabilities:			
Allocation of Special Drawing Rights	9	26,319,236	24,704,903
Other	10	62,538,380	57,102,913
		<u>88,857,616</u>	<u>81,807,816</u>
Total Liabilities		<u>1,451,055,130</u>	<u>1,459,292,085</u>
Other Funds	11	<u>17,362,844</u>	<u>7,467,272</u>
CAPITAL AND RESERVES:			
Authorized capital: BDS\$5,000,000			
Paid up capital: Government of Barbados		2,000,000	2,000,000
General Reserve		16,000,000	16,000,000
Net Capital and Reserves		<u>18,000,000</u>	<u>18,000,000</u>
Commitments and Contingencies	12	<u>1,486,417,974</u>	<u>1,484,759,357</u>

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

 Governor

 Financial Controller

2008 ANNUAL REPORT



CENTRAL BANK
of **BARBADOS**

Profit and Loss Account
For the year ended December 31, 2008
with comparative figures for 2007

	<u>NOTES</u>	<u>2008</u>	<u>2007</u>
		BD\$	BD\$
INCOME:			
Commissions and Fees		11,217,542	7,767,013
Discounts:			
Treasury Bills		1,245,072	4,387,790
Interest:			
Advances		5,502,239	5,312,912
Deposits		9,962,174	8,168,902
Securities		34,317,283	39,265,620
Other Income	13	2,134,259	1,550,216
Foreign exchange (loss) gains		(361,069)	22,889
Gain (loss) on sale of Foreign Securities		4,021,922	(133,536)
		<u>68,039,422</u>	<u>66,341,806</u>
Total Income			
EXPENSES:			
<i>Operating:</i>			
Administrative Expenses		13,979,168	13,636,749
Depreciation and amortization		3,747,192	3,855,733
Interest		1,981,817	4,403,569
Minting of Coins		1,752,949	1,274,339
Printing of Notes		440,406	4,471,942
Unissued notes		1,500,000	-
Debt Impairment	14	4,519,459	180,000
Retirement Benefits	15	11,238,085	8,167,103
Salaries and Allowances		24,319,464	22,244,567
		<u>63,478,540</u>	<u>58,234,002</u>
Operating Expenses			
Net Profit before Appropriation		<u><u>4,560,882</u></u>	<u><u>8,107,804</u></u>

See accompanying notes to accounts.

2008 ANNUAL REPORT



CENTRAL BANK
of **BARBADOS**

Profit and Loss Appropriation Account

For the year ended December 31, 2008

with comparative figures for 2007

	<u>2008</u>	<u>2007</u>
	BD\$	BD\$
Net profit before Appropriation	<u>4,560,882</u>	<u>8,107,804</u>
Deduct:		
Transfer to General Reserve	-	6,000,000
Transfer to Consolidated Fund	<u>4,560,882</u>	<u>2,107,804</u>
Balance carried forward	<u>-</u>	<u>-</u>

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

See accompanying notes to accounts.



Statement of Cash Flows
For the year ended December 31, 2008
with comparative figures for 2007

	<u>NOTES</u>	<u>2008</u>	<u>2007</u>
		<u>BDSS</u>	<u>BDSS</u>
Cash flows from operating activities			
Net profit before appropriation		4,560,882	8,107,804
Adjustments for:			
Depreciation		3,680,737	3,855,733
Amortization		66,455	-
Loss (gain) on sale of capital assets		50,279	(49,377)
Debt impairment	14	<u>4,519,459</u>	<u>180,000</u>
Operating profit before working capital changes		12,877,812	12,094,160
(Increase) decrease in other assets		(9,578,165)	672,015
Net movement in foreign securities		23,635,070	(120,733,474)
Increase in Holdings of Special Drawing Rights		(1,247,713)	(1,140,288)
Increase in local securities		(23,469,142)	(19,895,858)
(Increase) decrease in discounts and advances		(165,800,000)	30,900,000
(Decrease) increase in deposits		(7,075,436)	279,161,258
Increase in other liabilities		<u>5,435,467</u>	<u>14,470</u>
Net cash (used in) from operating activities		<u>(165,222,107)</u>	<u>181,072,283</u>
Cash flows from investing activities			
Purchase of fixed assets		(6,477,346)	(2,227,999)
Proceeds from sale of fixed assets		5,466	59,060
Net cash used in investing activities		<u>(6,471,880)</u>	<u>(2,168,939)</u>
Cash flows from financing activities			
Increase in allocation of Special Drawing Rights		1,614,333	860,987
Decrease in CMCF		-	9,691,700
Increase in general reserve		-	6,000,000
(Decrease) increase in notes and coins in circulation		(12,772,201)	39,115,604
Decrease in Special Credit Trust		<u>(1,000,000)</u>	<u>-</u>
Net cash (used in) from financing activities		<u>(12,157,868)</u>	<u>55,668,291</u>
Net (decrease) increase in cash and cash equivalents		(183,851,855)	234,571,635
Cash and cash equivalents at beginning of year		432,998,768	198,427,133
Cash and cash equivalents at end of year		<u>249,146,913</u>	<u>432,998,768</u>
Cash and cash equivalents comprise:			
Current Account Balances	2	244,351,117	376,074,319
Foreign Notes and Coins		4,795,796	1,460,769
Foreign Treasury Bills	3	<u>-</u>	<u>55,463,680</u>
		<u>249,146,913</u>	<u>432,998,768</u>

See accompanying notes to accounts.

Notes to Financial Statements
December 31, 2008**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) *Use of Estimates and Judgment*
The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.
- (b) *Income and Expenses:*
Income and expenses are accounted for on the accrual basis except that interest on the Caricom Multilateral Clearing Facility and the CRL Ltd loan facility is recognized when received.
- (c) *Translation of Foreign Currencies:*
Assets and liabilities designated in foreign currencies are translated at the rates of exchange prevailing at the balance sheet date. Gains and losses resulting from foreign currency translations and transactions are included in the Profit and Loss Account.
- (d) *Foreign Securities:*
Treasury bills and unquoted securities are valued at 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 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.

2008 ANNUAL REPORT



Notes to Financial Statements, Continued December 31, 2008

2. BALANCES HELD ABROAD

Balances held abroad comprise:

	<u>2008</u>	<u>2007</u>
	\$	\$
Current Accounts and deposits with foreign banks	<u>244,351,117</u>	<u>376,074,319</u>
Caricom Multilateral Clearing Facility (C.M.C.F)		
(Net of provision: 2008: \$10,002,620 (2007: \$5,602,620))	<u>19,866,880</u>	<u>24,266,880</u>
	<u>264,217,997</u>	<u>400,341,199</u>

Under a rescheduling arrangement with other participants of the Caricom Multilateral Clearing Facility (CMCF), the Bank agreed to consolidate balances of principal and interest due to the Bank by CMCF 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 at an interest 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 CMCF, balances on bilateral accounts due by Barbados to Guyana.

In November 2003, Barbados withdrew from the CMCF in order to permit other creditors to deliver debt relief to Guyana through CMCF under the eHIPC (Enhanced Highly Indebted Poor Countries) Trust Fund. By letter of February 24, 2005, the Bank of Guyana served notice of its intention to suspend further debt service payments to the CMCF with effect from April 1, 2005. The participating members of the CMCF have since agreed to distribute part of the CMCF accumulated fund to creditor members of the CMCF so as to facilitate debt reduction for Guyana under the Enhanced-HIPC initiative.

An additional provision of \$4,400,000 was made during 2008, bringing the total provision for impairment to \$10,002,620 (2007: \$5,602,620) (see note 14).

In 2007, the Bank of Guyana authorized the debit of BDS\$9,691,700 against the Bank of Guyana's bilateral account to be applied to the principal payment of the Central Bank of Barbados' share of the CMCF debt. The CMCF account is inactive and matures on April 1, 2009. The outstanding amount is recoverable from the CMCF Accumulated Fund.

Notes to Financial Statements, Continued
December 31, 2008

3. FOREIGN SECURITIES

Foreign securities comprise:

	2008		2007	
	Amortized Cost	Market Value	Amortized Cost	Market Value
	\$	\$	\$	\$
At Market Value:				
(a) Bonds/Debentures	740,419,282	757,212,798	764,042,600	769,952,296
(b) Equities	<u>306,521</u>	<u>334,017</u>	<u>306,521</u>	<u>334,017</u>
	740,725,803	757,546,815	764,349,121	770,286,313
At Cost:				
(c) Treasury Bills	<u>-</u>	<u>-</u>	<u>55,463,680</u>	<u>55,463,680</u>
	<u>740,725,803</u>	<u>757,546,815</u>	<u>819,812,801</u>	<u>825,749,993</u>

The unrealized gain of \$16,862,844 (2007: \$5,967,272) 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 pertains to the value of Special Drawing Rights at December 31, 2008. The balance held at December 31, 2008 amounted to SDR 5,643,134 (2007: SDR 5,582,046) and the rate of translation of SDRs into Barbados dollars at December 31, 2008 is BDS\$1 = SDR 0.305442 (2007: BDS\$1 = SDR 0.325401).

2008 ANNUAL REPORT



CENTRAL BANK
of **BARBADOS**

Notes to Financial Statements, Continued December 31, 2008

5. SECURITIES

Local securities comprise:

	2008		2007	
	Nominal Value \$	Cost \$	Nominal Value \$	Cost \$
Barbados Government Treasury Bills	-	-	20,000,000	19,895,858
Barbados Government Debentures	<u>44,000,000</u>	<u>44,000,000</u>	<u>635,000</u>	<u>635,000</u>

6. Fixed Assets

Fixed assets comprise:

	Freehold Land and Buildings \$	Furniture, Plant and Equipment \$	Motor Vehicles \$	Total \$
<i>Cost:</i>				
December 31, 2006	95,909,528	37,005,263	948,992	133,863,783
Additions	30,791	2,048,545	148,663	2,227,999
Disposal/write-offs	-	(771,006)	(303,021)	(1,074,027)
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	<u>95,915,452</u>	<u>44,215,566</u>	<u>964,937</u>	<u>141,095,955</u>
<i>Depreciation:</i>				
December 31, 2006	16,386,569	29,005,268	924,097	46,315,934
Charge for the year	1,366,528	2,389,865	99,340	3,855,733
Eliminated on disposals	-	(761,358)	(302,986)	(1,064,344)
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	<u>19,120,935</u>	<u>32,519,641</u>	<u>804,083</u>	<u>52,444,659</u>
<i>Net Book Values:</i>				
December 31, 2008	<u>76,794,517</u>	<u>11,695,925</u>	<u>160,854</u>	<u>88,651,296</u>
December 31, 2007	<u>78,187,222</u>	<u>7,649,027</u>	<u>74,183</u>	<u>85,910,432</u>



Notes to Financial Statements, Continued
December 31, 2008

7. OTHER ASSETS

Other assets include:

	<u>2008</u>	<u>2007</u>
	\$	\$
Accrued income on local investments	<u>1,244,055</u>	<u>1,307,454</u>
Cheques in process of collection	7,239,529	3,666,772
CRL Limited ⁽¹⁾	9,000,000	9,000,000
Fiscal Agency Payment Account	3,869	3,869
Prepayments	6,209,863	909,739
Staff Advances	14,762,034	15,447,829
Deferred Asset ⁽²⁾	-	66,455
Sundry Balances	<u>1,833,111</u>	<u>498,092</u>
	<u>40,292,461</u>	<u>30,900,210</u>

(1) The CRL Limited loan, which bears interest at a rate of 6% per annum was originally 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. At December 31, 2008, the cumulative interest not recognized was \$3,781,973 (2007: \$3,240,493).

(2) Deferred asset represents the value of the net amortization of the set-up costs of the Barbados Automated Clearing House Services Incorporated (BACHSI). The amount is being amortized over a period of five years, and was fully amortized during the year ended December 31, 2008.

8. NOTES AND COINS IN CIRCULATION

At December 31, 2008, the nominal value of numismatic coins sold, totaled approximately \$10.4 million (2007:\$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.

2008 ANNUAL REPORT



CENTRAL BANK
of **BARBADOS**

Notes to Financial Statements, Continued

December 31, 2008

10. OTHER

This amount comprises:

	<u>2008</u>	<u>2007</u>
	\$	\$
Accounts Payable	4,849,311	2,868,514
Barbados Tourism Authority Sinking Fund	-	305
BTII Special Development Bond Sinking Fund	1,414	3,889
Contribution Payable - Deposit Insurance Fund	-	2,963,968
Contribution Payable - Secondary Mortgage Market Project	242,319	242,319
Contribution Payable – Barbados Investment Fund	300,000	-
Contribution Payable – UWI Fund re Chair in Banking	1,161,169	861,169
Debenture Interest Payment Account	823,074	854,157
Deposit Insurance Company Accounts	932,119	5,515,824
Domestic Clearing	5,417,125	3,162,421
Dormant Accounts - Commercial Banks*	16,379,685	15,168,373
Export Development Fund	201,169	201,169
Housing Credit Fund General Account	9,467,121	7,092,248
Industrial Credit Fund	8,858,700	3,261,685
Redemption of Debentures Account	9,859,520	10,541,620
Sinking Fund Contribution Account	38,547	194,600
Small Business Fund	330,000	330,000
Staff Pension Fund	6,578	13,740
Staff Welfare Fund	1,614,441	1,722,541
Sundry Balances	2,056,088	2,104,371
	<u>62,538,380</u>	<u>57,102,913</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>2008</u>	<u>2007</u>
	\$	\$
Special Credit Trust	500,000	1,500,000
Unrealised gains on revaluation of investments (note 3)	16,862,844	5,967,272
	<u>17,362,844</u>	<u>7,467,272</u>

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



Notes to Financial Statements, Continued
December 31, 2008

12. COMMITMENTS AND CONTINGENCIES

- i.* At December 31, 2008 the Bank had guaranteed settlement of approximately \$1,061,585 (2007: \$1,250,539) under the following scheme:

	Value of Contracts	Guarantee
	\$	\$
Credit Insurance Scheme for Small Businesses	1,471,769	1,061,585
	1,471,769	1,061,585

Additionally, at December 31, 2008, the Bank had contracts for capital expenditure in the amount of \$4.074 million (2007: \$1.874 million).

- ii.* Subsequent to the year-end, Suit No. 177 of 2009 was filed against the Bank inter alia for constructive dismissal and aggravated damages. The Suit was adjourned and Counsel is unable to determine the level of damages, if any, which may be awarded to the plaintiff.

13. RELATED PARTIES

At December 31, 2008, assets under management totaled \$274,196,787 (2007: \$260,131,824). These are detailed as follows:

	2008	2007
	\$	\$
Export Credit Insurance	9,468,644	9,065,636
Small Business Guarantee	4,284,793	4,108,170
Industrial Credit Fund	113,346,350	104,982,018
Housing Credit Fund	147,097,000	141,976,000
	274,196,787	260,131,824

Other income includes management fees received as follows:

	2008	2007
	\$	\$
Industrial Credit Fund	173,951	184,318
Housing Credit Fund	506,299	483,109
	680,250	667,427

2008 ANNUAL REPORT



Notes to Financial Statements, Continued December 31, 2008

14. DEBT IMPAIRMENT

Debt Impairment comprises:

	<u>2008</u>	<u>2007</u>
	\$	\$
Provision for impairment of the CMCF debt (see note 2)	4,400,000	-
Provision for impairment of Other Assets	<u>119,459</u>	<u>180,000</u>
	<u>4,519,459</u>	<u>180,000</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, 2008 revealed the following:

	<u>2008</u>	<u>2007</u>
	\$	\$
Fair value of plan assets	95,781,117	91,585,935
Actuarial present value of liabilities	<u>102,896,695</u>	<u>99,773,681</u>
Unfunded liability	<u>7,115,578</u>	<u>8,187,746</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>2008</u>	<u>2007</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 11.86% (2007: 14.89%) of covered payroll be used for new benefits, plus an additional rate of 2.88% (2007: 3.53%) to allow the amortization of the unfunded liability over a period of fifteen/sixteen years. The total recommended funding rate of 14.74% (2007: 18.42%) 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.