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AUDITORS' CERTIFICATE 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, 2007, the profit and loss account, profit and loss appropriation account and the cash flows statement 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, 2007, 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



Balance Sheet
December 31, 2007
with comparative figures for 2006

ASSETS

	<u>NOTES</u>	<u>2007</u>	<u>2006</u>
		BD\$	BD\$
RESERVE OF EXTERNAL ASSETS:			
Balances Held Abroad	2	400,341,199	112,550,484
Foreign Notes and Coins		1,460,769	1,101,358
Foreign Securities	3	<u>825,749,993</u>	<u>759,354,383</u>
		1,227,551,961	873,006,225
International Monetary Fund:			
Reserve Tranche	4	<u>17,365,896</u>	<u>16,225,608</u>
Total Reserve of External Assets		<u>1,244,917,857</u>	<u>889,231,833</u>
LOCAL ASSETS:			
Securities:			
Barbados Government Treasury Bills	5	19,895,858	-
Barbados Government Debentures	5	<u>635,000</u>	<u>635,000</u>
		<u>20,530,858</u>	<u>635,000</u>
Advances:			
Government		102,500,000	133,400,000
Fixed Assets (Net)	6	85,910,432	87,547,849
Other Assets	7	<u>30,900,210</u>	<u>31,752,225</u>
Total Local Assets		<u>239,841,500</u>	<u>253,335,074</u>
		<u>1,484,759,357</u>	<u>1,142,566,907</u>

See accompanying notes to accounts.

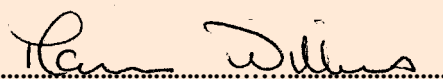


Balance Sheet
December 31, 2007
with comparative figures for 2006

LIABILITIES, CAPITAL AND RESERVES

	<u>NOTES</u>	<u>2007</u>	<u>2006</u>
		BDSS	BDSS
LIABILITIES:			
Notes and Coins in Circulation	8	635,172,597	596,056,993
Deposits:			
Government		99,135,208	113,688,772
Banks		629,790,212	334,616,246
Financial Institutions		5,871,997	3,035,192
Other		7,514,255	3,702,400
		<u>742,311,672</u>	<u>455,042,610</u>
Other Liabilities:			
Allocation of Special Drawing Rights	9	24,704,903	23,843,916
Other	10	57,102,913	57,088,443
		<u>81,807,816</u>	<u>80,932,359</u>
Total Liabilities		<u>1,459,292,085</u>	<u>1,132,031,962</u>
Other Funds	11	7,467,272	(1,465,055)
CAPITAL AND RESERVES:			
Authorised capital: BDS\$5,000,000			
Paid up capital: Government of Barbados		2,000,000	2,000,000
General Reserve		16,000,000	10,000,000
Net Capital and Reserves		<u>18,000,000</u>	<u>12,000,000</u>
Commitments	12	<u>1,484,759,357</u>	<u>1,142,566,907</u>

Approved on behalf of the Board of Directors on March 10, 2008

 Governor

 Financial Controller



Profit and Loss Account
For the year ended December 31, 2007
with comparative figures for 2006

	<u>Notes</u>	<u>2007</u>	<u>2006</u>
		BD\$	BD\$
INCOME:			
Commissions and Fees		7,767,013	9,677,484
Discounts:			
Treasury Bills		4,387,790	4,909,088
Interest:			
Advances		5,312,912	4,343,762
Deposits		8,168,902	5,005,226
Securities		39,265,620	30,044,349
Other Income	13	1,550,216	1,663,186
Foreign exchange gains		22,889	971,900
Loss on sale of Foreign Securities		<u>(133,536)</u>	<u>(1,581,297)</u>
Total Income		<u>66,341,806</u>	<u>55,033,698</u>
EXPENSES:			
<i>Operating:</i>			
Administrative Expenses		13,636,749	11,429,880
Depreciation		3,855,733	4,458,588
Amortization		-	122,375
Interest		4,403,569	2,730,414
Minting of Coins		1,274,339	921,860
Printing of Notes		4,471,942	4,617,123
Debt Impairment	14	180,000	4,980,000
Retirement Benefits	15	8,167,103	3,991,729
Salaries and Allowances		<u>22,244,567</u>	<u>20,895,929</u>
Operating Expenses		<u>58,234,002</u>	<u>54,147,898</u>
Net Profit before Appropriation		<u>8,107,804</u>	<u>885,800</u>

See accompanying notes to accounts.


Profit and Loss Appropriation Account

 For the year ended December 31, 2007
 with comparative figures for 2006

	<u>2007</u>	<u>2006</u>
	BD\$	BD\$
Net profit before Appropriation	<u>8,107,804</u>	<u>885,800</u>
Deduct:		
Transfer to General Reserve	6,000,000	-
Transfer to Consolidated Fund	<u>2,107,804</u>	<u>885,800</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, 2007
with comparative figures for 2006

	<u>Notes</u>	<u>2007</u>	<u>2006</u>
		BD\$	BD\$
Cash flows from operating activities			
Net profit before appropriation		8,107,804	885,800
Adjustments for:			
Depreciation		3,855,733	4,458,588
Amortization		-	122,375
Gain on sale of capital assets		(49,377)	(6,819)
Debt impairment	14	<u>180,000</u>	<u>4,980,000</u>
Operating profit before working capital changes		12,094,160	10,439,944
Decrease in other assets		672,015	2,239,873
Net increase in foreign securities		(120,733,474)	(62,798,545)
(Increase) decrease in Holdings of Special Drawing Rights			(1,140,288)
26,070			
(Increase) decrease in local securities		(19,895,858)	74,068,500
Decrease (Increase) in discounts and advances		30,900,000	(8,900,000)
Increase (decrease) in deposits		279,161,258	(48,424,914)
Increase in other liabilities		<u>14,470</u>	<u>12,173,733</u>
Net cash from (used in) operating activities		<u>181,072,283</u>	<u>(21,175,339)</u>
Cash flows from investing activities			
Purchase of fixed assets		(2,227,999)	(1,989,274)
Proceeds from sale of fixed assets		<u>59,060</u>	<u>16,727</u>
Net cash used in investing activities		<u>(2,168,939)</u>	<u>(1,972,547)</u>
Cash flows from financing activities			
Increase (decrease) in allocation of Special Drawing Rights		860,987	(741,009)
Decrease in CMCF		9,691,700	-
Increase in general reserve		6,000,000	-
Increase in notes and coins in circulation		<u>39,115,604</u>	<u>20,194,861</u>
Net cash from financing activities		<u>55,668,291</u>	<u>19,453,852</u>



Statement of Cash Flows, Continued
For the year ended December 31, 2007
with comparative figures for 2006

	<u>Notes</u>	<u>2007</u>	<u>2006</u>
		BD\$	BD\$
Net increase (decrease) in cash and cash equivalents		234,571,635	(3,694,034)
Cash and cash equivalents at beginning of year		<u>198,427,133</u>	<u>202,121,167</u>
Cash and cash equivalents at end of year		<u><u>432,998,768</u></u>	<u><u>198,427,133</u></u>
Cash and cash equivalents comprise:			
Current Account Balances	2	376,074,319	78,591,904
Foreign Notes and Coins		1,460,769	1,101,358
Foreign Treasury Bills	3	<u>55,463,680</u>	<u>118,733,871</u>
		<u><u>432,998,768</u></u>	<u><u>198,427,133</u></u>

See accompanying notes to accounts.

**Notes to Financial Statements**

December 31, 2007

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 recognised 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 amortised 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.

**Notes to Financial Statements**

December 31, 2007

(j) Amortised Cost:

All non-trading financial assets are measured at amortised cost, less impairment losses. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective rate of the instrument.

2. BALANCES HELD ABROAD

Balances held abroad comprise:

	<u>2007</u>	<u>2006</u>
	\$	\$
Current Accounts and deposits with foreign banks	376,074,319	78,591,904
Caricom Multilateral Clearing Facility (C.M.C.F.) (Net of provision: 2007: \$5,602,620 (2006: \$5,602,620))	<u>24,266,880</u>	<u>33,958,580</u>
	<u>400,341,199</u>	<u>112,550,484</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 \$4,800,000 was made during 2006, bringing the total provision for impairment to \$5,602,620 (see note 14).

During the year, the Bank of Guyana authorized the debit of BDSS\$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 Trust Fund and the eHIPC Trust Fund.

**Notes to Financial Statements, Continued**

December 31, 2007

3. FOREIGN SECURITIES

Foreign securities comprise:

	2007		2006	
	Amortised Cost	Market Value	Amortised Cost	Market Value
	\$	\$	\$	\$
At Market Value:				
(a) Bonds/Debentures	764,042,600	769,952,296	643,279,046	640,286,495
(b) Equities	<u>306,521</u>	<u>334,017</u>	<u>306,521</u>	<u>334,017</u>
	764,349,121	770,286,313	643,585,567	640,620,512
At Cost:				
(c) Treasury Bills	<u>55,463,680</u>	<u>55,463,680</u>	<u>118,733,871</u>	<u>118,733,871</u>
	<u>819,812,801</u>	<u>825,749,993</u>	<u>762,319,438</u>	<u>759,354,383</u>

The unrealized gain of \$5,967,272 (2006: unrealized loss \$2,965,055) 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, 2007. The balance held at December 31, 2007 amounted to SDR 5,582,046 (2006: SDR 5,470,480) and the rate of translation of SDRs into Barbados dollars at December 31, 2007 is BDS\$1 = SDR 0.325401 (2006: BDS\$1 = SDR 0.337151).



Notes to Financial Statements, Continued
December 31, 2007

5. SECURITIES

Local securities comprise:

	2007		2006	
	Nominal Value	Cost	Nominal Value	Cost
	\$	\$	\$	\$
Barbados Government Treasury Bills	20,000,000	19,895,858	-	-
Barbados Government Debentures	<u>635,000</u>	<u>635,000</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, 2005	95,909,528	35,270,867	948,992	132,129,387
Additions	-	1,989,274	-	1,989,274
Disposal/write-offs	-	(254,878)	-	(254,878)
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	<u>95,940,319</u>	<u>38,282,802</u>	<u>794,634</u>	<u>135,017,755</u>
<i>Depreciation:</i>				
December 31, 2005	15,020,042	26,259,208	823,066	42,102,316
Charge for the year	1,366,527	2,991,029	101,031	4,458,587
Eliminated on disposals	-	(244,969)	-	(244,969)
December 31, 2006	<u>16,386,569</u>	<u>29,005,268</u>	<u>924,097</u>	<u>46,315,934</u>
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	<u>17,753,097</u>	<u>30,633,775</u>	<u>720,451</u>	<u>49,107,323</u>
<i>Net Book Values:</i>				
December 31, 2007	<u>78,187,222</u>	<u>7,649,027</u>	<u>74,183</u>	<u>85,910,432</u>
December 31, 2006	<u>79,522,959</u>	<u>7,999,995</u>	<u>24,895</u>	<u>87,547,849</u>

**Notes to Financial Statements, Continued**

December 31, 2007

7. OTHER ASSETS

Other assets include:

	<u>2007</u>	<u>2006</u>
	\$	\$
Accrued income on local investments	1,307,454	1,256,754
Cheques in process of collection	3,666,772	4,465,100
CRL Limited ⁽¹⁾	9,000,000	9,000,000
Fiscal Agency Payment Account	3,869	4,499
Prepayments	909,739	1,040,931
Staff Advances	15,447,829	15,260,452
Deferred Asset ⁽²⁾	66,455	66,455
Sundry Balances	<u>498,092</u>	<u>658,034</u>
	<u>30,900,210</u>	<u>31,752,225</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, 2007, the cumulative interest not recognized was \$3,240,493 (2006: \$2,700,493).

(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.

8. NOTES AND COINS IN CIRCULATION

At December 31, 2007, the nominal value of numismatic coins sold, totaled approximately \$10.4 million (2006:\$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.



Notes to Financial Statements, Continued

December 31, 2007

10. OTHER

This amount comprises:

	<u>2007</u>	<u>2006</u>
	\$	\$
Accounts Payable	2,868,514	2,037,248
Barbados Tourism Authority Sinking Fund	305	184
BTII Special Development Bond Sinking Fund	3,889	3,889
Contribution Payable - Deposit Insurance Fund	2,963,968	2,900,000
Contribution Payable - Establishment of a Chair at UWI	-	861,169
Contribution Payable - Secondary Mortgage Market Project	242,319	242,319
Debenture Interest Payment Account	854,157	702,788
Deposit Insurance Company Accounts	5,515,824	-
Domestic Clearing	3,162,421	5,110,016
Dormant Accounts - Commercial Banks*	15,168,373	13,291,721
Export Development Fund	201,169	201,169
Housing Credit Fund General Account	7,092,248	4,302,116
Industrial Credit Fund	3,261,685	23,360,785
Redemption of Debentures Account	10,541,620	72,880
Sinking Fund Contribution Account	194,600	108,049
Small Business Fund	330,000	330,000
Staff Pension Fund	13,740	37,462
Staff Welfare Fund	1,722,541	1,878,150
Sundry Balances	<u>2,965,540</u>	<u>1,648,498</u>
	<u>57,102,913</u>	<u>57,088,443</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>2007</u>	<u>2006</u>
	\$	\$
Special Credit Trust	1,500,000	1,500,000
Unrealised gains (losses) on revaluation of investments (note 3)	<u>5,967,272</u>	<u>(2,965,055)</u>
	<u>7,467,272</u>	<u>(1,465,055)</u>

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

**Notes to Financial Statements, Continued**

December 31, 2007

12. COMMITMENTS

At December 31, 2007 the Bank had guaranteed settlement of approximately \$1,250,539 (2006: \$1,665,645) under the following scheme:

	<u>Value of Contracts</u>	<u>Guarantee</u>
	\$	\$
Credit Insurance Scheme for Small Businesses	<u>1,623,977</u>	<u>1,250,539</u>
	<u>1,623,977</u>	<u>1,250,539</u>

Additionally, at December 31, 2007, the Bank had contracts for capital expenditure in the amount of \$1.874 million (2006: \$1.406 million).

13. OTHER INCOME

Other income includes management fees received from Housing Credit Fund in the amount of \$483,109 (2006: \$471,595).

14. DEBT IMPAIRMENT

Debt Impairment comprises:

	<u>2007</u>	<u>2006</u>
	\$	\$
Provision for impairment of the CMCF debt (see note 2)	-	4,800,000
Provision for impairment of Other Assets	<u>180,000</u>	<u>180,000</u>
	<u>180,000</u>	<u>4,980,000</u>

**Notes to Financial Statements, Continued**

December 31, 2007

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, 2007 revealed the following:

	<u>2007</u>	<u>2006</u>
	\$	\$
Fair value of plan assets	91,585,935	80,004,484
Actuarial present value of liabilities	<u>99,773,681</u>	<u>94,507,504</u>
Unfunded liability	<u>8,187,746</u>	<u>14,503,020</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>2007</u>	<u>2006</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 14.89% (2006: 16.06%) of covered payroll be used for new benefits, plus an additional rate of 3.53% (2006: 6.43%) to allow the amortization of the unfunded liability over a period of fifteen/sixteen years. The total recommended funding rate of 18.42% (2006: 22.49%) 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 amounts for 2006 have been reclassified to conform to the current year's presentation.