



2014

ANNUAL REPORT





CENTRAL BANK OF BARBADOS
ANNUAL REPORT 2014

TABLE OF CONTENTS

| | |
|---------------------------------------|----|
| Letter of Transmittal | 5 |
| Governor's Review of Economic Policy | 6 |
| Review of Central Bank Operations | 8 |
| Corporate Governance | 11 |
| • Board Matters | 11 |
| • Internal Audit and Risk Management | 12 |
| • Senior Management | 13 |
| Adoption of Financial Statements 2014 | 14 |
| Financial Statements and Reports | 16 |

LETTER OF TRANSMITTAL



CENTRAL BANK OF BARBADOS
www.centralbank.org.bb

R. DeLisle Worrell, Ph.D
Governor

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

March 30, 2015

The Hon. Christopher Sinckler, MP
Minister of Finance and Economic Affairs
Government Headquarters
Bay Street
St. Michael

Dear Minister,

In accordance with Section 52(2) of the Central Bank Act, Cap 323C, Laws of Barbados, I have the honour to submit to you in your capacity as Minister of Finance, the Bank's Annual Accounts for the year ended December 31, 2014 as certified by the External Auditors in accordance with Section 51 of the Act, together with the Report on its operations during 2014.

The original of the Auditors' Report and Certificate was forwarded to you with my letter of March 25 2015.

Sincerely,

A handwritten signature in blue ink, appearing to read 'R. DeLisle Worrell'.



Dr. DeLisle Worrell,
Governor

The Barbadian economy remained sluggish but there were encouraging signs during 2014.

GOVERNOR'S REVIEW OF ECONOMIC POLICY

Central Bank Policy

During the year the Government stayed the course, persevering with the home-grown structural adjustment programme designed to restore macro-economic stability. The programme is comprehensive and front-loaded and aims to address the large fiscal deficit, the high debt burden and sluggish real growth. The adjustment measures include reducing 10 percent of the public sector workforce, introducing university tuition, higher Value Added Taxes (VAT) and property taxes, expenditure reduction measures, fewer tax exemptions and limits on transfers to state enterprises.

Barbados' macroeconomic strategy has been centred on the stabilisation of the foreign exchange reserves through the Government's fiscal consolidation programme. The foundation of this effort was underpinned by monthly Economic Policy Review Committee meetings with the Minister of Finance, at which senior officers of the Bank and the Ministry of Finance and Economic Affairs provided updates on economic developments and the fiscal consolidation programme. The process ensured that any pending budgetary shortfalls were addressed expeditiously and allowed for a rigorous debate on economic policy options.

In addition to the monthly meetings of the Economic Policy Review Committee, the Bank also collaborated in both a technical and an editorial capacity with the Ministry of Finance and Economic Affairs in revising the Government's Medium Term Growth and Debt Programme.

The Treasury Bill rate continued to be the benchmark rate used by the Bank to signal the intended direction of interest rates in the market. The Bank's other policy instruments remained unchanged during 2014. The discount rate stood at 7 percent, while the securities reserve requirement was 10 percent, and the cash reserve requirements were 5 percent and 2 percent for domestic and foreign deposits, respectively. The minimum deposit rate on the savings of private individuals and non-profit organisations also remained at 2.5 percent over the period.

Overview of the Economy

The Barbadian economy remained sluggish but there were encouraging signs during 2014. The fiscal consolidation measures implemented over the past 18 months reduced the deficit and stabilised the balance of payments. There were higher capital inflows and the trend in the foreign reserves in 2014 reverted to the normal pattern of prior years, although there was still a decline. There was however a slight uptrend in tourism and construction output, and the domestic inflation rate moderated, partly reflecting reduced international fuel prices.

Public Sector

The combined fiscal consolidation efforts realised an estimated \$181 million (2.1 percent of GDP) in savings to date. For the first three quarters of the fiscal year, total revenue was higher by approximately \$95 million, with increases in corporate taxes (\$15 million), VAT (\$6 million), excises (\$7 million) and import duties (\$7 million). Receipts from the Consolidation Tax, the Municipal Solid Waste Tax and the Asset Tax were equivalent to \$20 million, \$39 million and \$14 million, respectively. Also, notable declines were registered in expenditure on wages and salaries (\$53 million) and grants to public institutions (\$55 million).

Foreign Exchange Payments (BD\$ Millions)

| | 2013 | 2014 |
|---|----------------|---------------|
| FX Outflows | 5,715.8 | 5,800.4 |
| <i>Mainly Financed by:</i> | | |
| Merchandise Exports | 1,550.8 | 1,576.9 |
| Travel Receipts | 1,927.8 | 1,894.9 |
| Other Services | 417.1 | 429.8 |
| Income | 497.5 | 525.1 |
| Transfers | 139.7 | 140.0 |
| Public Financial Inflows | 381.7 | 234.2 |
| Private Financial Inflows | 458.5 | 777.7 |
| Change in International Reserves | (313.5) | (92.0) |

Balance of Payments

The stock of reserves was \$1,052 million at the end of December, representing 14.5 weeks of import cover. Retained imports fell by 1.7 percent, with a contraction in fuel imports of 9 percent, and a 2.9 percent decline in consumer durables. Domestic exports of goods rose by 3.8 percent, with electrical components up 24.8 percent and chemicals up 7.2 percent. Rum exports declined by 8.6 percent overall, on account of reduced exports for both bottled and bulk rum, by 8 percent and 9 percent, respectively.

Higher net long-term private inflows totaling \$508 million were recorded mainly for real estate purchases, signaling a recovery in the villa market, as well as property development by non-residents. Net long-term public sector inflows were \$87 million, after netting out public amortisation payments of \$147 million.

Tourism

Tourism output is estimated to have increased by 1.5 percent, reversing the downward trend witnessed over the last three years. Long-stay visitors rose by 2 percent, boosted primarily by a 10 percent increase in visitors from the UK, which was attributed to higher airlift and the staging of major special events, including the inaugural Top Gear Festival, the Barbados Race of Champions event, and the Caribbean Premier League T-20 Tournament. Arrivals from the US and Canada were down slightly, but arrivals from Trinidad and Tobago and other CARICOM markets contracted sharply as regional tourism remained constrained by the high cost of travel *inter alia*.

Tourist Arrivals by Source Market

| | Year-to-Date | | | |
|------------------------|----------------|-------------------|----------------|------------|
| | 2013 | 2014 ^P | Change | % CHG |
| U.S.A | 120,933 | 118,610 | (2,323) | (1.9) |
| Canada | 67,245 | 65,822 | (1,423) | (2.1) |
| U.K. | 172,779 | 190,812 | 18,033 | 10.4 |
| Germany | 10,421 | 12,016 | 1,595 | 15.3 |
| Other Europe | 27,297 | 28,840 | 1,543 | 5.7 |
| Trinidad & Tobago | 31,659 | 27,951 | (3,708) | (11.7) |
| CARICOM | 55,529 | 50,641 | (4,888) | (8.8) |
| Brazil | 4,700 | 5,567 | 867 | 18.4 |
| Other Countries | 19,260 | 19,731 | 471 | 2.4 |
| TOTAL LONG-STAY | 509,823 | 519,990 | 10,167 | 2.0 |
| CRUISE ARRIVALS | 570,263 | 571,870 | 1,606.8 | 0.3 |

Source: Barbados Statistical Service up to November 2014; Preliminary Data for December 2014 estimated by the Central Bank of Barbados

The banking system remained stable and highly liquid during 2014, despite the sluggish economic activity.

REVIEW OF CENTRAL BANK OPERATIONS

Financial Sector Performance and Regulation

The banking system remained stable and highly liquid during 2014, despite the sluggish economic activity. Though the non-performing loan ratio increased slightly during the year, banks' provisions against losses remained more than adequate, and the system continued to be well capitalised. Banks also continued to be profitable in 2014, with most institutions reporting positive net income over the period. The Bank again prepared its annual Financial Stability Report (FSR) at year-end and published a mid-year update to its 2013 FSR in August 2014.

During the year, Barbados made significant progress in adjusting to the implications of the Foreign Account Tax Compliance Act (FATCA), a United States (US) federal law requiring its citizens to report their financial accounts held outside of the US. During November, a FATCA model 1A agreement was signed between Barbados and the US at Bridgetown.

Central Bank Credit and Guarantee Schemes

The slow demand for credit in the banking sector continued to impact on the performance of the Bank's special schemes, including the Housing Credit Fund and the Industrial Credit Fund (ICF). The number of small and medium-sized enterprises using the collateral support provided by the credit guarantee scheme increased marginally during the year, while difficulties in obtaining certification from the various ministries contributed to a drop in the number of applications in respect of the Trade Receivables Liquidity Facility. The Bank responded by streamlining its credit and guarantee schemes, and stepping up promotion so that there is now greater awareness of the extent and variety of Central Bank schemes by entrepreneurs and other stakeholders.

International Relations

The Bank remained active in regional and international fora and continued its work with well-recognised financial oversight bodies, such as the Organisation for Economic Cooperation and Development, the Financial Action Task Force, the Caribbean Financial Action Task Force and others. Similarly, the Bank continued to attend regulatory colleges and engaged in quarterly conference calls with regional and international regulators and was represented on regional regulatory Working Groups to discuss matters such as Basel II/III and Loan Classification and Provisioning Standards.

A group from the Bank, led by Governor Worrell, conducted its fourth annual visit to Canada to discuss issues associated with the international business and financial services (IBFS) sector in Barbados. Meetings were held with the Barbados Consulate and High Commission, representatives of commercial banks and regulatory officials.

IMF / World Bank

A team from the International Monetary Fund (IMF) as usual conducted follow-up visits following the Article IV Consultation held in 2013. The meetings facilitated the IMF's regular monitoring of the Barbados economy, a review of the fiscal consolidation programme and provision of related policy advice. The team met with the Minister of Finance and other government officials, along with the Governor and representatives from various ministries

and stakeholder organisations. In early June, another IMF team visited Barbados to review recent economic developments and discuss the main policy priorities.

The Bank sent a delegation to both the Spring and Annual Meetings of the IMF and World Bank. During the Annual Meetings, the Barbados team held discussions with the multilateral financial institutions, investment banks and rating agencies and attended meetings of Commonwealth Finance Ministers and Commonwealth Central Bank Governors. Governor Worrell also participated as a panelist in a session entitled “Caribbean Economies: Has Recovery Arrived?” during a seminar hosted by CIBC World Markets.

Outreach Initiatives


Several activities were hosted to inform audiences locally, regionally and internationally about the status of the Barbados economy and the efforts at resuscitating it. While the agenda featured the usual conferences, seminars, workshops and the publication of economic documents, the highlight activity was the visit of the Bank’s first-ever Distinguished Visiting Fellow, Dr. Fred Bergsten of the prestigious Washington-based Peterson Institute. Investors and businesspersons were also given opportunities to learn about the state of the economy in small group sessions with the Governor, on a monthly basis.

The Bank continued to issue its quarterly press releases on the performance of the economy. Press conferences that followed the dissemination of the press releases were discontinued in mid-year. Instead, later in the year, the Bank hosted a televised panel discussion on “The Barbados Economy: Consolidation and Growth Strategy”. Panelists included Governor Worrell; Ms. Tracey Schuffler, President of the Barbados Chamber of Commerce and Industry; Mr. Andrew Brathwaite, a chartered accountant; and Mr. Jewel Brathwaite, a business journalist. Local broadcast journalist, Mr. David Ellis served as moderator.



Greening, Renewable Energy and Business Continuity

Refurbishment of the Headquarters building, the Frank Collymore Hall, and the Masonic Lodge continued, together with the ongoing replacement of elevators and equipment throughout the Tom Adams Financial Centre. In 2014, the Bank commissioned a grid-tied photovoltaic system to service the new park known as Church Village Green. The same technologies have already been implemented at the official residence of the Governor. The number of solar



panels on the roof of the Frank Collymore Hall will be increased, and the pursuit of other cost-effective greening initiatives will continue.

Information Technology

The Bank's overarching strategic IT objective for the year was to improve the operational efficiency in the Bank through the use of cutting edge technology in a secure environment. To this end, the Bank implemented Automated Clearing House (ACH) processing for payments to suppliers and ad hoc payments to staff, greatly reducing the number of cheques being printed by the Bank. A new module of the Technology One accounting system was implemented, allowing for end-to-end processing of the procurement process from quotation to payment of the supplier, and providing greater efficiencies to the entire cycle.

Human Resources

The Bank maintained its commitment to leadership, emotional intelligence, performance management and promoting healthy employee relations. During the year, the CBB Wellness Programme was launched, promoting the relationship between health and happiness.

Central Bank of Barbados Capitalisation

The Bank's accumulated losses have exhausted its capital. In accordance with the Central Bank Act, the capital was sustained by the transfer of non-negotiable, non-interest bearing securities to the Bank by the Government.

CORPORATE GOVERNANCE

BOARD MATTERS

The Board of Directors of the Bank has been entrusted, pursuant to Section 10 of the Central Bank of Barbados Act Cap. 323 C of the Laws of Barbados, with the overall responsibility for the policy and general administration of the Bank. The Board is empowered by the Act to make by-laws regulating the conduct of the Bank's business and may also make regulations and issue orders for the purpose of giving effect to the provisions of the Act.


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



Seated (L-R): **Mr. Elson Gaskin, Board Secretary; Ms. Onika Stewart and Governor Dr. DeLisle Worrell.**
Standing (L-R): **Mr. Cecil McCarthy, Dr. Justin Robinson, Mr. Martin Cox and Mr. Bjorn Bjerkhamn.**

Composition of the Board

The Board consists of the Governor as Chairman, the Director of Finance and Economic Affairs and five other Directors who are persons of recognised experience in the areas of law, economics, finance and business. At present the members of the Board are Dr. DeLisle Worrell (Chairman), Mr. Cecil McCarthy, Dr. Justin Robinson, Ms. Onika Stewart, Mr. Bjorn Bjerkhamn and Mr. Martin Cox. The latter two gentlemen joined the Board in 2014, replacing Mr. Harold Hoyte and Mr. Grantley Smith, respectively.



Mr. Elson Gaskin is the Bank Secretary and is the officer chiefly responsible for Board administration. During the year under review, Dr. Worrell was reappointed as Governor of the Bank and Chairman of the Board for a second term.

The two Deputy Governors of the Bank also attend all Board meetings but are only entitled to vote if, in the absence or disability of the Governor, one of them is chairing a Board meeting. The two current Deputy Governors are Mr. Cleviston Haynes and Mr. Harold Codrington.

Sub-Committees of the Board

There is one sub-committee of the Board, namely the Audit Committee. This committee addresses matters pertaining to the internal audit functions of the Bank and reviews the draft audited financial statements of the Bank, in conjunction with the external auditors, prior to the said statements being approved by the Board. Apart from the Audit Committee, a member of the Board also sits on the Committee of Management of the Staff Pension Fund.

Board Vacancy

There is currently one vacancy on the Board occasioned by the death of Mr. Ashley Toppin on December 13, 2014. The Board has placed on record its sincere gratitude to Mr. Toppin for his sterling service to the Board during the six years that he served. Condolences have been extended to his family by the Bank.

INTERNAL AUDIT AND RISK MANAGEMENT

Review of the Audit Committee and internal audit charters has commenced and is planned for completion in 2015. Reports for assurance and consulting engagements related to staff advances, front office activities, banking operations, tax refund certificates and destruction of American Express travellers cheques were distributed to senior management and the Audit Committee of the Board in 2014. Engagements were still in progress at year end for functions in the Accounts, Banking, Bank Supervision, Human Resources and Foreign Exchange Departments, as well as for the Security and Currency Sections.

SENIOR MANAGEMENT



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



Mr. Harold E. Codrington
M.A. (Econ.)
Deputy Governor



Mr. Cleviston L. Haynes
M.A. (Econ.)
Deputy Governor



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



Mr. David A. Boyce
M.B.A., A.F.A.
Director,
Foreign Exchange and
Export Credits, Ag.



Mr. Charles Briggs
M.B.A., C.Eng.
Director, Facilities
Management



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



Mrs. Michelle Doyle-Lowe
M. Phil., CFA,
Adviser to Governor
(Director, Research and
Economic Analysis, Ag.)



Mr. Elson Gaskin
LL.B., L.E.C, M.B.A., MICBS
Bank Secretary



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



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



Mr. Steve A. Vaughn
F.C.C.A., C.I.A.
Director, Internal Audit



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



Mr. Peter H. Whitehall
B.Sc. (Econ), M.P.A
Director, Foreign Exchange
and Export Credits
(Adviser to Governor, Ag.)



Mrs. Celeste J. Wood
M.Sc., M.B.A.
Adviser to Governor



ADOPTION OF THE AUDITED FINANCIAL STATEMENTS 2014

The Central Bank of Barbados Act CAP 323C requires the Bank to promote the general well-being 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 Balance Sheet

The Bank's Balance Sheet increased by \$22 million in 2014, after increasing by \$31 million in 2013. Domestic assets increased significantly as the Bank provided liquidity funding to Government through the purchase of treasury bills and debentures. The statutory lending limit on advances to Government decreased from \$259 million to \$252 million in accordance with Government's estimates of revenue for the fiscal year and amounts outstanding were within the statutory limit. Foreign reserves declined by \$98 million. Sales of foreign currencies to banks and Government decreased by 29%, from \$1,175 million in 2013 to \$832 million in 2014.

For the fifth consecutive year, notes and coins in circulation increased modestly as the transaction volumes for Point of Sale and ATM transactions remained constant. The volume of such transactions is impacted by consolidation in the banking industry. Government deposits with the Bank decreased by \$48 million while Sinking Fund Contributions declined by \$108 million. Commercial banks' deposits at the Bank increased by \$145 million, reflecting increased available liquidity in the banking system.

Statement of Profit and Loss

The Bank continued its risk-averse approach to securities management and accordingly, investments were not held to maximize earnings but to maintain economic stability and support Government policy. Total income decreased by \$4.0 million from \$52.0 million in 2013.

There were reductions in income on foreign securities. The yields on the Bank's investment portfolio remained low and the situation was adversely impacted by the need to call several high yielding securities because of the increased demand for foreign exchange. The additional interest from higher holdings of local securities was insufficient to offset the decline from foreign securities.



Operating Expenses

Total expenses remained constant at \$55.3 million and there were no unusual or non-recurring items. Salaries and Administrative Expenses increased by \$0.3 million and \$0.5 million, respectively, but these gains were off-set by a decrease of \$0.9 million in depreciation.

A regional Government defaulted on interest payments on an outstanding bond and accordingly, the Bank maintained a provision of \$471,000 in respect of impairment.

The CMCF debt was fully repaid and no further losses were incurred.

Results for the Year

The Bank incurred a net loss of \$7.3 million during the year. This loss brought the accumulated deficit at December 31, 2014 to \$22.1 million and impaired the Bank's capital.

In accordance with the Central Bank of Barbados Act, the Minister of Finance transferred to the Bank non-negotiable, non-interest bearing securities of \$7,892,956 from Government in order to preserve the Bank's capital from impairment.

The Board has initiated the process of recruiting an international firm of consultants to review the Bank's operations and make recommendations for the long term improvement of the Bank's structure and finances.

Future Accounting Changes

The Bank's financial statements are currently prepared in accordance with the Central Bank Act and International Financial Reporting Standards (IFRS) with disclosure limitations. The Bank and the Ministry of Finance are in the process of revising the CBB Act and incorporating changes to the regulatory accounting and reporting framework. In the interim, the Bank will continue to identify key areas of differences between current reporting standards and IFRS and prepare parallel financial statements.

The impact of adopting IFRS has not been determined at this time.

Adoption of Financial Statements

Annexed to this report are the Auditors' Certificate, Balance Sheet as at December 31, 2014, the Profit and Loss Account, the Profit and Loss Appropriation, Statement of Cash Flows 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, 2014.

AUDITORS' REPORT TO THE BOARD OF DIRECTORS FINANCIAL STATEMENTS

December 31, 2014

| | |
|--|----|
| Auditors' Report to the Board of Directors | 17 |
| Balance Sheet | 18 |
| Profit and Loss Account | 20 |
| Profit and Loss Appropriation Account | 21 |
| Statement of Cash Flows | 22 |
| Notes to Financial Statements | 23 |



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Central Bank of Barbados

We have audited the accompanying financial statements of Central Bank of Barbados (the "Bank"), which comprise the balance sheet as at December 31, 2014, the profit and loss account, profit and loss appropriation account, statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Central Bank of Barbados Act, Cap. 323C and the significant accounting policies stipulated in Note 1 and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements of the Bank for the year ended December 31, 2014, 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
March 20, 2015

ASSETS

December 31, 2014 with comparative figures for 2013

| | NOTES | 2014 BDS\$ | 2013 BDS\$ |
|---|-------|----------------------|----------------------|
| RESERVE OF EXTERNAL ASSETS: | | | |
| Balances Held Abroad | 2 | 130,196,241 | 240,967,762 |
| Foreign Notes and Coins | | 36,610,326 | 11,084,670 |
| Foreign Securities | 3 | 572,861,980 | 590,643,194 |
| | | <u>739,668,547</u> | <u>842,695,626</u> |
| International Monetary Fund: | | | |
| Reserve Tranche | 4 | 18,094,832 | 17,619,687 |
| Holdings of Special Drawing Rights | 4 | 176,057,409 | 171,451,137 |
| | | <u>194,152,241</u> | <u>189,070,824</u> |
| Total Reserve of External Assets | | <u>933,820,788</u> | <u>1,031,766,450</u> |
| LOCAL ASSETS: | | | |
| Local Securities: | | | |
| Barbados Government Treasury Bills | 5 | 416,883,421 | 411,234,665 |
| Barbados Government Debentures | 5 | 191,584,000 | 75,000,000 |
| Other | 5 | 7,892,956 | - |
| | | <u>616,360,377</u> | <u>486,234,665</u> |
| Advances: | | | |
| Government | | 252,500,000 | 257,320,990 |
| Fixed Assets (Net) | 6 | 92,106,268 | 91,782,362 |
| Other Assets | 7 | 47,220,369 | 52,474,325 |
| Total Local Assets | | <u>1,008,187,014</u> | <u>887,812,342</u> |
| | | <u>1,942,007,802</u> | <u>1,919,578,792</u> |

See accompanying notes to accounts.



CENTRAL BANK OF BARBADOS | **BALANCE SHEET**
LIABILITIES, CAPITAL AND RESERVES

December 31, 2014 with comparative figures for 2013

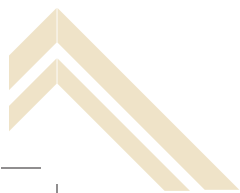
| | NOTES | 2014 BDS\$ | 2013 BDS\$ |
|---|-------|---------------|---------------|
| LIABILITIES: | | | |
| Notes and Coins in Circulation | 8 | 686,101,339 | 673,032,462 |
| Deposits: | | | |
| Government | | 51,298,262 | 99,105,787 |
| Banks | | 898,912,903 | 754,144,890 |
| Financial Institutions | | 806,555 | 1,654,857 |
| Other | | 5,908,427 | 3,225,439 |
| | | 956,926,147 | 858,130,973 |
| Other Liabilities: | | | |
| Allocation of Special Drawing Rights | 9 | 200,641,541 | 195,372,974 |
| Other | 10 | 90,256,147 | 189,291,302 |
| | | 290,897,688 | 384,664,276 |
| Total Liabilities | | 1,933,925,174 | 1,915,827,711 |
| Other Funds | 11 | 4,285,828 | 500,000 |
| CAPITAL AND RESERVES: | | | |
| Authorized capital: BDS\$5,000,000 | | | |
| Paid up capital: Government of Barbados | | 2,000,000 | 2,000,000 |
| Accumulated Deficit | | (14,203,200) | (14,748,919) |
| General Reserve | | 16,000,000 | 16,000,000 |
| Net Capital and Reserves | | 3,796,800 | 3,251,081 |
| Commitments and Contingencies | 12 | 1,942,007,802 | 1,919,578,792 |

See accompanying notes to accounts.

Approved on behalf of the Board of Directors on March 20, 2015

Governor

Financial Controller



CENTRAL BANK OF BARBADOS
PROFIT AND LOSS ACCOUNT

For the year ended December 31, 2014 with comparative figures for 2013

| | NOTES | 2014 BDS\$ | 2013 BDS\$ |
|------------------------------------|-------|--------------------|--------------------|
| INCOME: | | | |
| Commissions and Fees | | 9,217,006 | 12,646,037 |
| Discounts: | | | |
| Treasury Bills | | 10,960,304 | 6,855,485 |
| Interest: | | | |
| Advances | | 7,970,461 | 7,169,544 |
| Deposits | | 107,744 | 199,526 |
| Securities | | 17,080,915 | 19,383,570 |
| Other Income | 13 | 1,410,148 | 2,141,649 |
| Foreign Exchange Gain | | 680,816 | 1,551,522 |
| Investment Impairment Recovery | 3 | 161,432 | 300,803 |
| Gain on Sale of Foreign Securities | | 365,259 | 1,774,088 |
| Total Income | | 47,954,085 | 52,022,224 |
| EXPENSES: | | | |
| Administrative Expenses | | 16,085,586 | 15,548,411 |
| Depreciation | 6 | 4,087,328 | 4,964,139 |
| Interest | | 132,765 | 90,355 |
| Debt Impairment | | - | 471,000 |
| Loss on disposal of fixed assets | | 274,958 | - |
| Minting of Coins | | 432,850 | 2,285,251 |
| Printing of Notes | | 5,276,588 | 3,303,904 |
| Retirement Benefits | 14 | 2,392,514 | 2,736,915 |
| Salaries and Allowances | | 26,618,733 | 26,277,057 |
| Operating Expenses | | 55,301,322 | 55,677,032 |
| Loss before Appropriation | | (7,347,237) | (3,654,808) |

See accompanying notes to accounts.



CENTRAL BANK OF BARBADOS

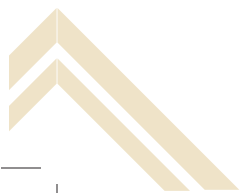
PROFIT AND LOSS APPROPRIATION ACCOUNT

For the year ended December 31, 2014 with comparative figures for 2013

| | 2014 | 2013 |
|--|--------------|--------------|
| | BDS\$ | BDS\$ |
| Balance brought forward | (14,748,919) | (11,094,111) |
| Loss before Appropriation | (7,347,237) | (3,654,808) |
| Security transferred under Sec 7(4) of the Central Bank of Barbados Act, Cap 323C (Note 5) | 7,892,956 | - |
| Accumulated Deficit carried forward | (14,203,200) | (14,748,919) |

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.



CENTRAL BANK OF BARBADOS
STATEMENT OF CASH FLOWS

For the year ended December 31, 2014 with comparative figures for 2013

| | NOTE | 2014 | 2013 |
|---|------|---------------------|---------------------|
| | | BDS\$ | BDS\$ |
| Cash flows from operating activities | | | |
| Loss before appropriation | | (7,347,237) | (3,654,808) |
| Adjustments for: | | | |
| Depreciation | | 4,087,328 | 4,964,139 |
| Loss on disposal of fixed assets | | 274,958 | - |
| Debt impairment | | - | 471,000 |
| Investment impairment recovery | | (161,432) | (300,803) |
| Operating (loss) profit before working capital changes | | (3,146,383) | 1,479,528 |
| Decrease (increase) in other assets | | 5,253,956 | (12,101,575) |
| Net movement in foreign securities | | 17,942,646 | 256,591,109 |
| (Increase) decrease in reserve tranche | | (475,145) | 485,133 |
| (Increase) decrease in holdings of special drawing rights | | (4,606,272) | 4,734,363 |
| Increase in local securities | | (122,232,756) | (251,718,222) |
| Decrease in caricom multilateral clearing facility | | 14,071,359 | - |
| Decrease in government advances | | 4,820,990 | 2,779,010 |
| Increase (decrease) in deposits | | 98,795,174 | (50,415,312) |
| (Decrease) increase in other liabilities | | (99,035,155) | 112,258,475 |
| Net cash (used in) from operating activities | | (88,611,586) | 64,092,509 |
| Cash flows from investing activities | | | |
| Purchase of fixed assets | | (4,687,492) | (3,725,038) |
| Proceeds from sale of fixed assets | | 1,300 | - |
| Net cash used in investing activities | | (4,686,192) | (3,725,038) |
| Cash flows from financing activities | | | |
| Increase (decrease) in allocation of special drawing rights | | 5,268,567 | (5,379,317) |
| Increase in notes and coins in circulation | | 13,068,877 | 3,757,983 |
| Increase (decrease) in other funds | | 3,785,828 | (25,608,780) |
| Net cash from (used in) financing activities | | 22,123,272 | (27,230,114) |
| Net (decrease) increase in cash and cash equivalents | | (71,174,506) | 33,137,357 |
| Cash and cash equivalents at beginning of year | | 237,981,073 | 204,843,716 |
| Cash and cash equivalents at end of year | | 166,806,567 | 237,981,073 |
| Cash and cash equivalents comprise: | | | |
| Current Account Balances | 2 | 130,196,241 | 226,896,403 |
| Foreign Notes and Coins | | 36,610,326 | 11,084,670 |
| | | 166,806,567 | 237,981,073 |

See accompanying notes to accounts.



CENTRAL BANK OF BARBADOS
NOTES TO FINANCIAL STATEMENTS

December 31, 2014

1. SIGNIFICANT ACCOUNTING POLICIES

The Central Bank of Barbados is incorporated under the Central Bank of Barbados Act CAP 323C (CBB Act) and is responsible for the administration of the Financial Institutions Act, CAP 324A and the International Financial Services Act, CAP 325. The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all of the years presented.

Under the CBB Act, the Bank in preparing financial statements is subject to requirements of the Act. The financial statements comprise the Balance Sheet, the Profit and Loss Account, Profit and Loss Appropriation Account, Statement of Cash Flows and related notes.

The financial statements of the Bank have been prepared in accordance with the measurement and recognition requirements of International Financial Reporting Standards (IFRS), except for the limitations noted below. Adopted IFRS and the CBB Act have been used as a model for the presentation and disclosure framework to provide additional information and analysis of key items in the financial statements, except for the measurement of unfunded pension liability and certain other limitations as outlined below.

As a result, the financial statements of the Bank disclose less detail of certain elements than would be required under adopted IFRS. Disclosure and measurement limitations include:

- Business segments
- Information on credit risk
- Non-consolidation of entities owned and or managed by the Bank
- Employee benefits
- Financial assets
- Numismatic coins

The financial statements have been prepared on the historical cost basis of accounting, modified to include financial assets that are available for sale. The measurement of certain foreign 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.

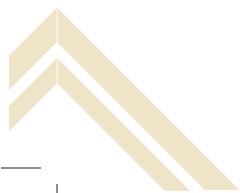
Other significant accounting policies:

(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.

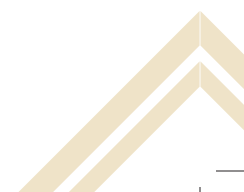
(b) Income and Expenses:

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.



**1. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

- (c) Translation of Foreign Currencies:
Assets and liabilities designated in foreign currencies are translated at the rates of exchange prevailing at the balance sheet date. Gains and losses resulting from foreign currency translations and transactions are included in the Profit and Loss Account.
- (d) Foreign Securities:
Treasury bills and unquoted securities are valued at amortized cost.
- Other securities are valued at market and the resulting gains and/or losses on revaluation which are deferred pending realization, are included in other funds and/or other assets.
- (e) Numismatic Coins:
The nominal value of numismatic coins sold is not included in 'notes and coins in circulation' while the net proceeds from sales are included in the Profit and Loss Account under Other Income.
- (f) Local Securities:
Local securities are valued at amortized cost.
- (g) Depreciation:
Furniture, equipment, motor vehicles and buildings including the Frank Collymore Hall are depreciated on the straight-line basis over their estimated useful lives.
- (h) Retirement Benefits:
The Bank contributes to a defined benefit plan. The plan is funded by payments from the Bank, by taking account of the recommendations of an independent qualified actuary. The cost of providing retirement benefits is determined using the Projected Unit Credit 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.





December 31, 2014

2. BALANCES HELD ABROAD

Balances held abroad comprise:

| | 2014 | 2013 |
|---|-------------|-------------|
| | \$ | \$ |
| Current accounts and deposits with foreign banks | 130,196,241 | 226,896,403 |
| Caricom Multilateral Clearing Facility (CMCF) (Net of provision: 2014: \$Nil (2013: \$15,798,141)) | - | 14,071,359 |
| | 130,196,241 | 240,967,762 |

During the year ended December 31, 2014, the Bank received settlement on the CMCF outstanding balance after provision.

3. FOREIGN SECURITIES

Foreign securities comprise:

| | 2014 | | 2013 | |
|------------------|----------------|--------------|----------------|--------------|
| | Amortized Cost | Market Value | Amortized Cost | Market Value |
| | \$ | \$ | \$ | \$ |
| At Market Value: | | | | |
| Bonds/Debentures | 568,790,301 | 572,548,633 | 598,327,111 | 590,329,847 |
| Equities | 285,851 | 313,347 | 285,851 | 313,347 |
| | 569,076,152 | 572,861,980 | 598,612,962 | 590,643,194 |

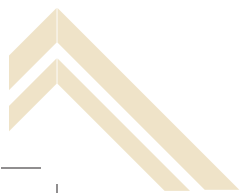
(a) The net unrealized gain of \$3,758,828 (2013: loss of \$7,498,765) arose on the revaluation of Securities and is included in Other Funds at Note 11 (2013: Other Assets at Note 3).

(b) A realized gain of \$161,432 (2013: \$300,803) arose on the recovery of an impaired security and is included in the Profit and Loss Account.

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, 2014. The balances held at December 31, 2014 amounted to SDR 5,805,546 (2013: SDR 5,805,546) and SDR 56,486,259 (2013: SDR 56,491,778) respectively. The rate of translation of SDRs into Barbados dollars at December 31, 2014 is BDS\$1 = SDR 0.32084 (2013: BDS\$1 = SDR 0.329492).



NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2014

5. LOCAL SECURITIES

Local securities comprise:

| | 2014 | | 2013 | |
|------------------------------------|--------------------|--------------------|--------------------|--------------------|
| | Nominal Value | Cost | Nominal Value | Cost |
| | \$ | \$ | \$ | \$ |
| Barbados Government Treasury Bills | 418,463,000 | 416,883,421 | 415,000,000 | 411,234,665 |
| Barbados Government Debentures | 191,584,000 | 191,584,000 | 75,000,000 | 75,000,000 |
| Other | 7,892,956 | 7,892,956 | - | - |
| | <u>617,939,956</u> | <u>616,360,377</u> | <u>490,000,000</u> | <u>486,234,665</u> |

Other represents a non-negotiable non-interest bearing security transferred to the Bank in accordance with CAP323C, Sec 7(4) and is redeemable in accordance with Sec 9(2)(a) of the Act.

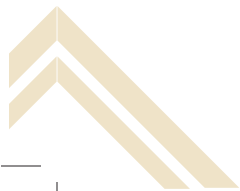


December 31, 2014

6. FIXED ASSETS

Fixed assets comprise:

| | Freehold Land and Buildings | Furniture, Plant and Equipment | Motor Vehicles | Total |
|---------------------------|-----------------------------------|--------------------------------------|-------------------|-------------|
| | \$ | \$ | \$ | \$ |
| Cost: | | | | |
| January 1, 2013 | 103,384,629 | 58,489,422 | 768,112 | 162,642,163 |
| Additions | 1,363,681 | 2,361,357 | - | 3,725,038 |
| December 31, 2013 | 104,748,310 | 60,850,779 | 768,112 | 166,367,201 |
| Additions | 1,457,789 | 3,229,703 | - | 4,687,492 |
| Disposal/write-offs | (501,862) | (583,229) | - | (1,085,091) |
| December 31, 2014 | 105,704,237 | 63,497,253 | 768,112 | 169,969,602 |
| Accumulated Depreciation: | | | | |
| January 1, 2013 | 24,764,896 | 44,279,698 | 576,106 | 69,620,700 |
| Charge for the year | 1,539,257 | 3,342,591 | 82,291 | 4,964,139 |
| December 31, 2013 | 26,304,153 | 47,622,289 | 658,397 | 74,584,839 |
| Charge for the year | 1,423,553 | 2,627,348 | 36,427 | 4,087,328 |
| Eliminated on disposals | (225,627) | (583,206) | - | (808,833) |
| December 31, 2014 | 27,502,079 | 49,666,431 | 694,824 | 77,863,334 |
| Net Book Values: | | | | |
| December 31, 2014 | 78,202,158 | 13,830,822 | 73,288 | 92,106,268 |
| December 31, 2013 | 78,444,157 | 13,228,490 | 109,715 | 91,782,362 |
| December 31, 2012 | 78,619,733 | 14,209,724 | 192,006 | 93,021,463 |



December 31, 2014

7. OTHER ASSETS

Other assets include:

| | 2014 | 2013 |
|--|------------|------------|
| | \$ | \$ |
| Accrued income | 3,271,259 | 4,770,076 |
| Cheques in process of collection | 8,639,408 | 6,438,908 |
| CRL Limited ^(a) | 9,000,000 | 9,000,000 |
| Prepayments | 3,402,114 | 3,996,276 |
| Staff advances | 20,173,880 | 18,963,678 |
| Net unrealised loss on revaluation of investments (Note 3) | - | 7,498,765 |
| Sundry balances | 2,733,708 | 1,806,622 |
| | 47,220,369 | 52,474,325 |

(a) The CRL Limited loan, which bears interest at a rate of 6% per annum was originally due from the Barbados Development Bank. The Government of Barbados has issued a letter of comfort in respect of this loan. During 1998, the facility was transferred to CRL. The Government has undertaken to repay the debt on behalf of CRL Limited. At December 31, 2014, the cumulative interest not recognized was \$5,401,973 (2013: \$4,861,973).

8. NOTES AND COINS IN CIRCULATION

At December 31, 2014, the nominal value of numismatic coins sold, totaled approximately \$10.4 million (2013: \$10.4 million) and is 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.



December 31, 2014

10. OTHER

This amount comprises:

| | 2014 | 2013 |
|---|------------|-------------|
| | \$ | \$ |
| Accounts payable | 1,850,823 | 1,623,560 |
| Contribution payable - UWI Fund re Chair in Banking | 861,169 | 861,169 |
| Debenture interest payment account | 390,855 | 484,654 |
| Deposit Insurance Company accounts | 353,530 | 151,522 |
| Domestic clearing | 12,256,740 | 8,297,976 |
| Dormant accounts (i) | 12,753,182 | 18,864,069 |
| Housing Credit Fund General account | 3,106,726 | 4,663,814 |
| Industrial Credit Fund | 17,454,283 | 7,481,050 |
| Redemption of Debentures account | 33,470,620 | 30,982,620 |
| Sinking Fund Contribution account (ii) | 4,676,267 | 112,608,462 |
| Staff Pension Fund | 60,277 | 58,879 |
| Staff Welfare Fund | 166,498 | 434,369 |
| Sundry balances | 2,855,177 | 2,779,158 |
| | 90,256,147 | 189,291,302 |

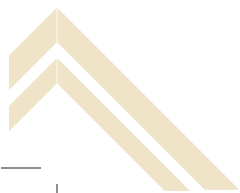
(i) Dormant accounts comprise:

| | 2014 | 2013 |
|-------------------------------------|------------|------------|
| | \$ | \$ |
| Banks – local and international (a) | 5,591,098 | 14,677,425 |
| Financial Services Commission (b) | 7,162,084 | 4,186,644 |
| | 12,753,182 | 18,864,069 |

(a) Deposits made by Banks which represents abandoned property for which no activity was evidenced for a period of 10 years and said property is deposited with the Central Bank of Barbados in accordance with Section 88 (3) of the Financial Institutions Act, 1997-16; and

(b) In accordance with the Financial Services Commission Act, this amount represents security deposits from insurance companies and abandoned property in the form of unclaimed matured insurance policies.

(ii) This account is set up in accordance with the Local Loans Act CAP 98, the External Loans Act CAP 94D and the General Loan and Stock Act CAP 95 and represents the uninvested funds held for the redemption of local and foreign debt.



NOTES TO FINANCIAL STATEMENTS, CONTINUED

December 31, 2014

11. OTHER FUNDS

This amount comprises the following balances:

| | 2014 | 2013 |
|--|------------------|----------------|
| | \$ | \$ |
| Special Credit Trust | 500,000 | 500,000 |
| Unrealised gains on revaluation of investments (Note 3) | 3,785,828 | - |
| | <u>4,285,828</u> | <u>500,000</u> |

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

12. COMMITMENTS AND CONTINGENCIES

(a) At December 31, 2014 the Bank had guaranteed settlement of approximately \$2,415,262 (2013: \$1,963,410) under the following schemes:

| | 2014 | | 2013 | |
|---|-----------------------|------------------|-----------------------|------------------|
| | Value of Contracts | Guarantee | Value of Contracts | Guarantee |
| | \$ | \$ | \$ | \$ |
| Credit Insurance Scheme for Small Businesses | 2,571,630 | 1,981,300 | 2,211,907 | 1,661,611 |
| Trade Receivables Credit Facility | 434,766 | 433,962 | 302,920 | 301,799 |
| | <u>3,006,396</u> | <u>2,415,262</u> | <u>2,514,827</u> | <u>1,963,410</u> |

(b) Additionally, at December 31, 2014, the Bank had contracts for capital expenditure in the amount of \$3,512,142 (2013: \$47,292).



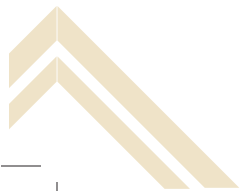
13. RELATED PARTY TRANSACTIONS

Other income includes management fees received as follows:

| | 2014 | 2013 |
|------------------------|----------------|----------------|
| | \$ | \$ |
| Industrial Credit Fund | 249,440 | 248,303 |
| Housing Credit Fund | 578,416 | 597,739 |
| | <u>827,856</u> | <u>846,042</u> |

At December 31, 2014, the Bank owned and/or managed certain entities. The gross assets as disclosed in the entities' financial statements are as follows:

| | 2014 | 2013 |
|--------------------------|--------------------|--------------------|
| | \$ | \$ |
| Export Credit Insurance | 11,086,900 | 10,865,383 |
| Small Business Guarantee | 10,299,680 | 10,117,540 |
| Industrial Credit Fund | 137,132,139 | 135,248,793 |
| Housing Credit Fund | 156,743,836 | 173,163,164 |
| | <u>315,262,555</u> | <u>329,394,880</u> |



December 31, 2014

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, 2014 revealed the following:

| | 2014 | 2013 |
|--|-------------|-------------|
| | \$ | \$ |
| Fair value of plan assets | 142,795,382 | 136,315,101 |
| Actuarial present value of liabilities | 139,624,810 | 133,833,413 |
| Surplus | 3,170,572 | 2,481,688 |

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

| | 2014 | 2013 |
|--|--------------|--------------|
| 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 |

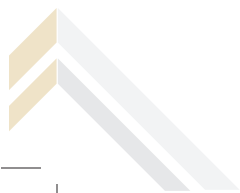
The actuary has recommended that a funding rate of 11.75% (2013: 11.83%) of covered payroll be used for new benefits, less a rate of 1.16% (2013: 0.89%) to allow the amortization of the unfunded liability over a period of fifteen (15) years. The total recommended funding rate of 10.59% (2013: 10.94%) of covered payroll should obtain until the next valuation.

15. TAXATION

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



NOTES



NOTES





ANNUAL REPORT 2014

CENTRAL BANK OF BARBADOS
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