

FINANCIAL STATEMENTS

CENTRAL BANK OF BELIZE

2005 Financial Statements

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**AUDITORS' REPORT
TO THE BOARD OF DIRECTORS OF
CENTRAL BANK OF BELIZE**

We have audited the accompanying balance sheet of Central Bank of Belize as of 31 December 2005, and the related statements of income, cash flows and changes in shareholders' equity for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the financial position of Central Bank of Belize as of 31 December 2005, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

A handwritten signature in blue ink that reads "Horwath Belize".

16 February 2006

CENTRAL BANK OF BELIZE
BALANCE SHEET
At 31 December 2005

In Belize dollars.

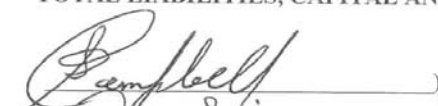


Assets	Notes	2005	2004
APPROVED EXTERNAL ASSETS			
Balances and deposits with foreign bankers and Crown Agents	4	63,882,197	31,821,054
Reserve Tranche and balances with the International Monetary Fund	5	17,087,886	18,195,786
Other foreign credit instruments		20,800,000	13,220,000
Accrued interest and cash in transit	6,2k	11,401,682	11,242,717
Marketable securities issued or guaranteed by foreign government and international financial institutions.	7	2,000,000	2,000,000
	3b	115,171,765	76,479,557
BELIZE GOVERNMENT SECURITIES	8	92,184,594	82,795,204
BELIZE GOVERNMENT CURRENT ACCOUNT	9	88,536,782	80,659,575
LOANS TO PUBLIC SECTOR	10	27,521,712	32,521,712
BALANCES WITH LOCAL BANKERS AND CASH ON HAND		68,795	84,329
OTHER ASSETS	11	8,496,711	6,799,470
PROPERTY AND EQUIPMENT	2f, 12	30,633,963	31,142,567
TOTAL ASSETS		362,614,322	310,482,414

The accompanying notes form an integral part of these financial statements.

CENTRAL BANK OF BELIZE
BALANCE SHEET
 At 31 December 2005 (Continued)

In Belize dollars.

LIABILITIES, CAPITAL AND RESERVES	NOTES	2005	2004
DEMAND LIABILITIES			
Notes and coins in circulation		143,089,348	141,949,684
Deposits by licensed financial institutions	13	112,341,444	87,893,652
Deposits by and balances due to Government and public sector entities in Belize		73,416,067	13,746,883
Deposits by international agencies	14	2,440,333	2,703,774
		<u>331,287,192</u>	<u>246,293,993</u>
BALANCES DUE TO CARICOM CENTRAL BANKS		295,942	87,918
OTHER LIABILITIES	15	3,184,518	3,981,698
COMMERCIAL BANK DISCOUNT FUND	16	1,480,663	1,656,124
GOVERNMENT SINKING FUND	17	-	20,210,971
BELIZE CREDIT FACILITY	18	-	8,653,769
LOANS PAYABLE TO FOREIGN INSTITUTIONS	19	<u>-</u>	<u>2,500,000</u>
TOTAL LIABILITIES		336,248,315	283,384,473
REVALUATION ACCOUNT	21,20	2,081,924	3,658,886
CAPITAL ACCOUNT			
Paid up capital (Authorized capital \$10,000,000)		10,000,000	10,000,000
GENERAL RESERVE FUND	21	14,284,083	13,439,055
TOTAL LIABILITIES, CAPITAL AND RESERVES		<u>362,614,322</u>	<u>310,482,414</u>

) GOVERNOR
) DIRECTOR
) DEPUTY GOVERNOR

The accompanying notes form an integral part of this financial statement.

CENTRAL BANK OF BELIZE
STATEMENT OF INCOME
For the year ended 31 December 2005

In Belize dollars.

	NOTES	2005	2004
INCOME			
Interest			
Approved external assets		5,019,698	2,953,341
Advances to government		9,497,530	8,560,116
Local securities	2d	954,282	800,825
Loans to statutory bodies		697,900	2,751,986
		16,169,410	15,066,268
Discounts on local securities		2,100,659	2,383,557
Commission and other income		1,481,748	2,075,290
TOTAL INCOME		19,751,817	19,525,115
LESS: Interest expense		(832,743)	(3,774,953)
Income from operations		18,919,074	15,750,162
EXPENDITURE			
Printing of notes and minting of coins	2b	(1,361,288)	(1,248,113)
Salaries and wages, including superannuation contributions and gratuities		(5,698,289)	(5,153,161)
Depreciation		(860,755)	(881,583)
Administrative and general		(2,548,460)	(2,535,818)
Total expenditure		(10,468,792)	(9,818,675)
NET PROFIT		8,450,282	5,931,487
NET PROFIT TRANSFERABLE TO THE GENERAL RESERVE FUND AND CONSOLIDATED FUND		8,450,282	5,931,487
Transfer to general reserve fund in accordance with section 9(1) of the Act	21	(845,028)	(593,149)
Balance credited to the accountant general for the consolidated revenue fund		7,605,254	5,338,338

The accompanying notes form an integral part of these financial statements.

CENTRAL BANK OF BELIZE
STATEMENT OF CHANGES IN EQUITY
 At 31 December 2005

In Belize dollars.

	Share Capital	Revaluation Reserve	General Reserve	Accumulated Profits
At 1 January 2004	10,000,000	2,872,621	12,845,906	-
Net profit	-	-	-	5,931,487
Gain on revaluation	-	786,265	-	-
Transfer to Government of Belize	-	-	-	(5,338,338)
Transfer to General Reserve Fund	-	-	593,149	(593,149)
At 31 December 2004	10,000,000	3,658,886	13,439,055	-
Net profit	-	-	-	8,450,282
Loss on revaluation	-	(1,576,962)	-	-
Transfer to Government of Belize	-	-	-	(7,605,254)
Transfer to General Reserve Fund	-	-	845,028	(845,028)
At 31 December 2005	10,000,000	2,081,924	14,284,083	-

The accompanying notes form an integral part of these financial statements.

CENTRAL BANK OF BELIZE
STATEMENT OF CASH FLOWS
For the year ended 31 December 2005

In Belize dollars.

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit transferred to the general reserve fund	845,028	593,149
Adjustment to reconcile net profit to net cash provided by operating activities:		
Amortization	57,815	57,815
Depreciation	860,755	881,583
Loss/(gain) on disposal	16,327	(10,649)
Changes in assets and liabilities that provided (used) cash:		
Other assets	(1,755,056)	(1,026,625)
Other liabilities	(797,180)	(3,260,265)
Revaluation account	(1,576,962)	786,265
Net cash provided by operating activities	(2,349,273)	(1,978,727)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Belize Government current account	(7,877,207)	(8,214,793)
Loans to public sector/commercial bank	5,000,000	(17,397,626)
Acquisition of property and equipment	(412,204)	(229,207)
Proceeds from sale of assets	43,726	11,000
Reserve tranche in the IMF	1,043,772	(565,496)
Net cash (used in) investing activities	(2,201,913)	(26,396,122)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Notes and coins in circulation	1,139,664	14,322,725
Deposits by licensed financial institutions	24,447,792	12,821,925
Deposits by and balances due to Governments and Public Sector entities	59,669,184	(41,806,124)
Government sinking fund	(20,210,971)	(33,999,099)
Deposits by international agencies	(263,441)	(2,265,335)
Balances due to Caricom central banks	208,025	(732,214)
Commercial Bank Discount Fund	(175,461)	(159,519)
Belize credit facility	(8,653,769)	692,610
Loan repayment made to foreign institutions	(2,500,000)	(5,000,000)
Net cash (used in) provided by financing activities	53,661,023	(56,125,031)

The accompanying notes form an integral part of these financial statements.

CENTRAL BANK OF BELIZE
STATEMENT OF CASH FLOWS
For the year ended 31 DECEMBER 2005 (Continued)

In Belize dollars.

	2005	2004
NET DECREASE IN CASH AND CASH EQUIVALENTS	49,109,837	(84,499,880)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	136,259,139	220,759,019
CASH AND CASH EQUIVALENTS, END OF YEAR	185,368,976	136,259,139
CASH AND CASH EQUIVALENTS COMPRISE THE FOLLOWING:		
EXTERNAL ASSETS:		
Balances and deposits with foreign bankers and Crown Agents	65,882,197	33,821,054
Other foreign credit instruments	20,800,000	13,220,000
Accrued interest and cash intransit	11,401,682	11,242,717
Balance with the International Monetary Fund	5,031,708	5,095,835
	103,115,587	63,379,606
LOCAL ASSETS:		
Cash and bank balances	68,795	84,329
Government of Belize Treasury Bills	73,184,594	72,637,204
Government of Belize Treasury Notes	9,000,000	158,000
	185,368,976	136,259,139

The accompanying notes form an integral part of these financial statements.

CENTRAL BANK OF BELIZE
NOTES TO THE FINANCIAL STATEMENTS

In Belize dollars.

1. GENERAL INFORMATION

The Central Bank of Belize, (the "Bank"), was established by the Central Bank of Belize Act 1982 (the Act) and has its principal place of business in Belize City, Belize.

The principal activity of the Bank is to foster monetary stability especially in regard to the exchange rate, and to promote banking, credit and exchange conditions conducive to the growth of the economy of Belize.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Following is a summary of the more significant accounting policies adopted by the Bank in preparing its financial statements which accord with International Financial Reporting Standards adopted by the International Accounting Standards Board and the Central Bank of Belize Act.

a. Measurement base

The financial statements are prepared on the historical cost basis, modified by the revaluation of certain assets and liabilities as identified in specific accounting policies below.

b. Revenue and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. Expenses are recognized in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the Property, Plant and Equipment in a state of efficiency has been charged to income in arriving at the profit for the year.

Interest income and expense are recognized in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments. Interest income is suspended when loans become doubtful of collection. Such income is excluded from interest income until received.

Miscellaneous income and expenses are recognized on an accrual basis.

c. Inventories

Inventories are carried at lower of cost or realizable value. Cost is determined on a First in First Out basis.

CENTRAL BANK OF BELIZE
NOTES TO THE FINANCIAL STATEMENTS

In Belize dollars.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

d. Changes in accounting policies

There have been no changes in accounting policies during the year. All policies have been applied on a basis consistent with the prior year.

e. Financial instruments

Financial assets and financial liabilities are recognized on the Bank's balance sheet when the Bank becomes a party to the contractual provisions of the instrument.

International Monetary Fund balances

The Bank transacts with the International Monetary Fund (IMF) in its own right rather than as an agent for the Government of Belize. All transactions by the Bank with the IMF have been included in these financial statements on that basis.

Quota with the IMF is recorded by the Bank as an asset. Exchange gains and losses arising on revaluation of IMF assets at the exchange rate applying at balance date as published by the IMF are recognized in the Revaluation account in accordance with section 49 of the Act.

Foreign marketable securities

These consist of debentures issued by the Government of Dominica and are recorded in the balance sheet at cost.

Belize government securities

The Bank's investment portfolio consists of treasury bills, treasury notes and Belize Defense Bonds purchased from Government of Belize. Treasury bills are carried at amortized cost. All other investments are carried at cost which approximates market value.

Loans to government

Loans to Government represent direct provisional advances to Government of Belize under Section 34 of the Central Bank of Belize Act 1982.

CENTRAL BANK OF BELIZE
NOTES TO THE FINANCIAL STATEMENTS

In Belize dollars.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Financial instruments (continued)

Loans to public sector

Loans to the public sector are carried at the original amount less an allowance for any uncollectable amounts. A provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the estimated recoverable amount.

Other financial assets and liabilities

Local and foreign currency cash, deposits and short-term advances are recognized on settlement date.

f. Property, plant and equipment, depreciation and amortization -

Fixed assets are carried at cost, and are depreciated on a straight line basis over their estimated useful lives. Land is not depreciated.

Depreciation is charged at the following rates:

Building and improvements	1%, 5%
Office furniture	10%
Equipment	10%, 20%
Vehicles	20%

CENTRAL BANK OF BELIZE
NOTES TO THE FINANCIAL STATEMENTS

In Belize dollars.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g. Employee benefits

Pension

The Bank operates a defined benefit pension scheme for employees. Contributions are made by the Bank and employees to a separately administered fund. The cost of providing benefits under this plan is determined using an accrued benefit valuation method.

Gratuity

The Bank is liable to pay gratuity for contract employees who are not eligible for pension scheme. In order to meet this liability, a provision is carried forward in the balance sheet, equivalent to an amount calculated on 20% of the annual salary for each completed year of service, commencing from the first year of service. The resulting difference between the brought forward provision at the beginning of a year and the carried forward provision at the end of a year is dealt within the income statement. The gratuity liability is neither funded nor actually valued. This item is grouped under other liabilities in the Balance Sheet.

h. Sale of special coins

Special coins, which are minted or packaged as collector items, are legal tender. However, no liability is recorded in respect of these coins since they are not expected to be placed in circulation as currency. Minting cost is charged against income in the year incurred. Income is recognized when sales are made.

CENTRAL BANK OF BELIZE
NOTES TO THE FINANCIAL STATEMENTS

In Belize dollars.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i. Foreign currency translation and exchange gains and losses

i. Assets and liabilities

Foreign currency balances at the balance sheet date are translated at the rates of exchange ruling at that date.

ii. Income and expenses

Income and expenses in foreign currencies are translated at the rate of exchange ruling on the transaction date.

iii. Revaluation

Section 49 of the Act stipulates that gains or losses from any revaluation of the Bank's net assets or liabilities in gold, special drawings rights (SDR), foreign exchange or foreign securities as a result of any change in the par value of the Belize dollar or any change in the par value of the currency unit of any other country shall be excluded from the computation of the annual profits and losses of the Bank. All such gains or losses shall be credited in a special account called Revaluation Account. However, no profits shall first be carried to the General Reserve Fund or paid to the Government under Section 9 (see note 19) whenever the Revaluation Account shows a net loss. Such profits shall first be credited to the Revaluation Account in an amount sufficient to cover the loss.

j. Valuation of securities

Securities are stated at the lower of cost or market value. Realized and unrealized gains and losses arising from changes in the market value of securities or the par value of the Belize dollar are transferred to the Revaluation Account.

k. Accrued interest and cash intransit

Accrued interest and cash intransit in respect of foreign assets are shown as part of external assets.

CENTRAL BANK OF BELIZE
NOTES TO THE FINANCIAL STATEMENTS

In Belize dollars.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1. Taxation

In accordance with Article 51 of the Act, the Bank is exempt from the provisions of any law relating to income tax or customs duties and from the payment of stamp duty

- m. Certain accounts from prior year have been reclassified to conform to current year presentation.

3. CENTRAL BANK OF BELIZE ACT SECTION 5 COMPLIANCE

Section 5 of the Act stipulates that:

- a. The Bank shall at all times hold assets of an amount in value sufficient to cover fully the value of the total amount of its notes and coins for the time being in circulation; and
- b. The Bank shall maintain at all times a reserve of external assets of not less than 40 percent of the aggregate amount of notes and coins in circulation and of the Bank's liabilities to customers in respect of its sight and time deposits.

At 31 December 2005 and 2004 total approved external assets approximated 35 percent and 31 percent of such liabilities respectively.

4. BALANCES AND DEPOSITS WITH FOREIGN BANKERS

Included in foreign deposits is \$61,255,724 of restricted collateral deposits which are held in designated reserve accounts with Bank of New York and are primarily used to secure payments on notes payable to international lenders by Government of Belize.

5. INTERNATIONAL MONETARY FUND - RESERVE TRANCHE

Belize became a member of the International Monetary Fund in 1982 with a subscription of SDR 7,200,000 of which SDR 1,320,600 was paid in foreign currency (The Reserve Tranche) and the remainder in Belize dollars made up of currency and non-interest bearing promissory notes.

CENTRAL BANK OF BELIZE
NOTES TO THE FINANCIAL STATEMENTS

In Belize dollars.

5. INTERNATIONAL MONETARY FUND - RESERVE TRANCHE CONTINUED

In 1982, this Reserve Tranche was purchased by the Bank from the Government of Belize.

At 31 December 2005, Belize's subscriptions to the International Monetary Fund amounted to SDR 1,760,237 and the Bank's Reserve Tranche amounted to SDR 4,217,600. The Reserve Tranche which earns interest is included in approved external assets in the financial statements at the exchange rate of BZ\$2.8585 to SDR 1.0 at 31 December 2005 (2004 - Bz\$3.1060 to SDR 1.0).

6. ACCRUED INTEREST AND CASH TRANSIT

Accrued interest and cash intransit consist of:

	2005	2004
Accrued interest	277,201	978,465
Cash intransit	11,124,481	10,264,252
	<u>11,401,682</u>	<u>11,242,717</u>

7. MARKETABLE SECURITIES ISSUED OR GUARANTEED BY FOREIGN GOVERNMENTS AND FOREIGN FINANCIAL INSTITUTIONS

These securities, which are carried at cost, consist of 3% debentures issued by the Government of Dominica and maturing in 2014. The Bank has the intent and ability to hold these securities to maturity.

CENTRAL BANK OF BELIZE
NOTES TO THE FINANCIAL STATEMENTS

In Belize dollars.

8. BELIZE GOVERNMENT SECURITIES

Belize Government securities consist of:

	2005	2004
Treasury Bills	73,184,594	72,637,204
Treasury Notes	9,000,000	158,000
Belize Defense Bonds	10,000,000	10,000,000
	<u>92,184,594</u>	<u>82,795,204</u>

Section 35(2) of the Act stipulates that the Bank shall not at any time hold Belize Government securities in an aggregate amount exceeding five times the aggregate amount at that time of the paid up capital and general reserves of the Bank. At 31 December 2005 and 2004 the Bank's aggregate holding of Belize Government securities approximated 3.80 times and 3.53 times, respectively, the amount of paid up capital and general reserves of the Bank. The carrying amount of these investments approximates fair value due to their short maturity.

9. BELIZE GOVERNMENT CURRENT ACCOUNT

In accordance with Section 34 of the Act, the Bank may make direct advances to the Government provided that at any one time the total outstanding amount of direct advances shall not exceed twenty percent of the current revenues of the Government collected during the preceding financial year or the sum of fifty million dollars, whichever is greater. At 31 December 2005 and 2004 advances to Government represent approximately 99 percent and 96 percent of the authorized limit respectively.

CENTRAL BANK OF BELIZE
NOTES TO THE FINANCIAL STATEMENTS

In Belize dollars.

10. LOANS TO THE PUBLIC SECTOR

	2005	2004
11% p.a. loan with semi-annual payment of interest, and payment of first installment of principal 18 months after 16 August 2000 and every 6 months thereafter until maturity on 1 November 2005. The loan is guaranteed by the Government of Belize.	-	5,000,000
11% p.a. short-term loan maturing on 30 June 2006, guaranteed by the Government of Belize. Interest has been waived since February 2005.	27,521,712	27,521,712
	<u>27,521,712</u>	<u>32,521,712</u>

11. OTHER ASSETS

Other assets consist of:

	2005	2004
Inventory of note and coins	3,673,027	1,976,485
Prepayments and accrued interest	3,011,275	3,113,519
Accounts receivable	1,198,956	1,094,290
Museum endowment fund	520,335	578,150
Other	150,933	94,841
	<u>8,554,526</u>	<u>6,857,285</u>
Less: amortization	(57,815)	(57,815)
	<u>8,496,711</u>	<u>6,799,470</u>

Museum endowment fund is amortized over 10 years commencing 2004.

Included in accounts receivable is an amount of \$585,945 due from Guyana under the Caricom Multilateral Clearing Facility. The loan is being restructured and management believes the carrying amount of the loan will be repaid in full. Interest has not been recognized on the loan since October 2004.

CENTRAL BANK OF BELIZE
NOTES TO THE FINANCIAL STATEMENTS

In Belize dollars.

12. PROPERTY AND EQUIPMENT

Cost	Property	Furniture	Equipment	Vehicles	Work in Progress	Total
At 1 January 2005	30,441,554	1,039,276	4,613,003	346,649	175,416	36,615,898
Additions	-	20,307	287,851	96,990	7,057	412,205
Reclassified as equipment	-	-	182,473	-	(182,473)	-
Disposals	-	(11,434)	(144,798)	(64,300)	-	(220,532)
At 31 December 2005	30,441,554	1,048,149	4,938,529	379,339	-	36,807,571
Accumulated Depreciation						
At 1 January 2005	(1,706,477)	(693,385)	(2,902,120)	(171,349)	-	(\$,473,331)
Additions	(280,626)	(76,772)	(452,818)	(50,540)	-	(860,756)
Disposals	-	10,238	117,250	32,991	-	160,479
At 31 December 2005	(1,987,103)	(759,919)	(3,237,688)	(188,898)	-	(6,173,608)
Net book value						
At 1 January 2005	28,735,077	345,891	1,710,883	175,300	175,416	31,142,567
At 31 December 2005	28,454,451	288,230	1,700,841	190,441	-	30,633,963

13. DEPOSITS BY LICENSED FINANCIAL INSTITUTIONS

Under the revised provisions of Section 13 of the Banks Financial Institutions Act 1995, licensed financial institutions are required to keep on deposit with the Bank an amount equivalent to at least 7%, 8% effective 1 May 2005, of their average deposit liabilities.

Under Section 21 A (1) of the International Banking Act, licensed financial offshore institutions are required to maintain an account of a minimum balance of \$200,000 with the Bank. These deposits are interest free.

CENTRAL BANK OF BELIZE
NOTES TO THE FINANCIAL STATEMENTS

In Belize dollars.

14. DEPOSITS BY INTERNATIONAL AGENCIES

The Bank acts as agent for and accepts deposits from international financial institutions. At 31 December, deposits consist of:

	2005	2004
Commission of the European Communities	1,036,584	1,316,408
International Monetary Fund	137,015	148,878
Caribbean Development Bank	32,641	24,705
Inter-American Development Bank	324,263	400,293
International Bank for Reconstruction and Development	716,450	716,450
European Union	193,380	97,040
	<hr/> 2,440,333	<hr/> 2,703,774

15. OTHER LIABILITIES

	2005	2004
Interest payable	-	916,908
Severance and gratuities	709,726	714,165
Abandoned property	1,622,430	1,424,818
Other	852,362	925,807
	<hr/> 3,184,518	<hr/> 3,981,698

CENTRAL BANK OF BELIZE
NOTES TO THE FINANCIAL STATEMENTS

In Belize dollars.

16. COMMERCIAL BANK DISCOUNT FUND

Commercial Bank Discount Fund (Fund) is a facility which was established by an agreement signed in March 1983 by the Government of Belize and the United States of America, providing for a discount fund to be operated through the Bank. The United States Government acting through United States Agency for International Development (USAID) earmarked US \$5 million in loan funds up to 30 June 1987, to finance this facility. The facility enabled commercial banks in Belize to discount with the Bank up to 100% of loans made to sub-borrowers for projects approved by the Bank and USAID. The Bank is expected to accumulate significant net interest earnings over the repayment term of the USAID loan to form a permanent fund. In 1993, USAID and the Bank agreed that Bz \$2 million and Bz \$1.5 million from the reflows to the Discount Fund could be used as a line of credit to National Development Foundation of Belize (the Foundation) and Development Finance Corporation (DFC), respectively.

The USAID loan has the following terms:

Interest rate of 2% for the first ten years and 3% thereafter. The loan is repayable within 25 years with a grace period of 9-1/2 years and 31 equal semi-annual principal payments for 15-1/2 years.

At 31 December 2005, reflows onlent to the Foundation amounted to \$1.6 million net of repayments (2004 - \$1.6 million). Reflows onlent to DFC amount to \$215,462 net of repayments (2004 - \$479,279).

At 31 December 2005, the Fund is comprised as follows:

	2005	2004
Loan payable to USAID	(1,737,051)	(2,139,937)
Loans receivable from institutions	1,825,148	2,088,965
	88,097	(50,972)
Interest paid to USAID	2,192,029	2,130,830
Interest received from institutions	(3,760,789)	(3,735,982)
	(1,480,663)	(1,656,124)

17. GOVERNMENT SINKING FUND

Government Sinking Fund consisted of US\$3,164,752 and US\$6,940,734 invested by the Bank on behalf of the Government with respect to a bond issue that matured in 2005.

CENTRAL BANK OF BELIZE
NOTES TO THE FINANCIAL STATEMENTS

In Belize dollars.

18. BELIZE CREDIT FACILITY

Under a World Bank Agricultural Credit and Export Development Project Loan Agreement signed between the Government of Belize and the International Bank for Reconstruction and Development on 19 July 1988, the Bank acting as agent for the Government of Belize assists the Government in operating the Belize Credit Facility through which loans are made available to the Development Finance Corporation for specific development projects.

The Bank's responsibility to assist is set out in an agreement signed between the Government and the Bank on 13 March 1989. The loan was repaid in April 2005.

19. LOAN PAYABLE TO FOREIGN INSTITUTION

Loan payable to foreign institution consists of:

	2005	2004
Due to a foreign institution repayable in 8 installments commencing 4 November 2001 and every 6 months thereafter. Interest accrues at 2.82% per annum above LIBOR for the first 2 years and thereafter at 2% per annum above LIBOR. The loan was negotiated for US\$5,000,000 for project financing and is secured by a first-priority charge lien or security interest on a deposit of US\$1,250,000 placed by the Bank with the foreign institution. The loan was repaid in May 2005.	-	1,250,000
Due to a foreign institution repayable in 8 installments commencing 4 November 2001 and every 6 months thereafter. Interest accrues at 2.82% per annum above LIBOR for the first 2 years and thereafter at 2% per annum above LIBOR. The loan was negotiated for US\$5,000,000 for project financing and is secured by a first-priority charge, lien or security interest on a deposit of US\$1,250,000 placed by the Bank with the foreign institution. The loan was repaid in May 2005.	-	1,250,000
	-	2,500,000

These loans were guaranteed by the Government of Belize.

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20. REVALUATION ACCOUNT

The Revaluation Account has been set up in compliance with Section 49 of the Act, in accordance with which profits are not credited to the General Reserve Fund or paid to the consolidated Revenue Fund whenever the Revaluation Account shows a net loss. Such profits are to be credited to the Revaluation Account in an amount sufficient to cover the loss.

	2005	2004
Net gain on revaluation of Reserve Tranche in the International Monetary Fund	1,462,169	787,511
Net gain on revaluations during the year	619,755	2,871,375
	<u>2,081,924</u>	<u>3,658,886</u>

21. GENERAL RESERVE FUND

Section 9(1) of the Act provides for the establishment of a General Reserve Fund into which is paid 20 percent of the net profit of the Bank in each financial year until the Fund is equal to the amount of the Bank's paid up capital. Thereafter, 10 percent of net profit is paid into the Fund.

	2005	2004
Balance at beginning of year	13,439,055	12,845,906
Transfer from net profit	845,028	593,149
Balance at end of year	<u>14,284,083</u>	<u>13,439,055</u>

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22. PENSION SCHEME

The Bank operates a defined benefit pension scheme which receives contributions from the Bank and its eligible employees. During the year under review, the Bank contributed \$179,828 (2004 - \$162,106) to the scheme. The scheme is financially separate from the Bank and is managed by a Board of Trustees. The cost of plan benefits is determined using an accrued benefit valuation method.

An actuarial valuation was done at 31 December 2004 but not finalized. The last finalized actuarial valuation as at 31 December 2002 reported the present value of past service liabilities and plan assets to be \$2,916,000 and \$4,599,000, respectively.

Significant actuarial assumptions used in the valuation were:

- I. A valuation rate of interest of 7% p.a.
- II. A rate of escalation of pensionable salaries of 5% p.a.
- III. Pensions will not increase in the course of payments.

Under the plan, the employees are entitled to retirement benefits varying between 60 and 70 per cent of final salary on attainment of a retirement age of 60. No other post-retirement benefits are provided.

23. RELATED PARTY TRANSACTIONS

Transactions with governmental departments

In the normal course of its operations, the Bank enters into transactions with related parties. Related parties include the Government of Belize and various government departments and entities. All transactions are carried out with reference to market criteria.

Transactions entered into include:

- a. Acting as the fiscal agent, banker and financial advisor to the government; the Bank is the depository of the government, its agents and institutions, and provide banking services to government and government departments.
- b. Acting as the agent of the government, its agencies, and institutions, the Bank provides guarantees, and participates in loans to government and related institutions.

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23. RELATED PARTY TRANSACTIONS CONTINUED

- c. The Bank does not ordinarily collect any commission, fees, or other charges for services it renders to the government or related entities, except in the case of banking and financial services.
- d. Acting as the agent of government, the Bank issues government securities, purchases unsubscribed portions of any issue and amounts set aside for the Bank.
- e. As the agent of the government, the Bank manages public debt and foreign reserves.

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2005	2004
Short-term benefits	888,078	853,191
Post-employment benefits	79,426	92,990
Termination benefits	20,448	24,343
	987,952	970,524

Loans and advances to key management personnel

As at 31 December 2005, an amount of \$110,059 (2004 - \$ 44,665) was receivable from key managerial personnel as approved advances made by the Bank.

24. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arms-length transaction. When a financial instrument is traded in an organized and liquid market that is able to absorb a significant transaction without moving the price against the trader, quoted market values represent fair value.

Financial Assets and Liabilities

All financial assets and liabilities are valued at either quoted market prices or prices derived from market yield curves, as described in the Bank's accounting policies, except as detailed below:

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24. FAIR VALUE OF FINANCIAL INSTRUMENTS CONTINUED

Currency in Circulation

The fair value of Currency in Circulation is considered to be its face value as reported in the financial statements.

Deposits

The carrying amounts of deposits are considered to approximate their fair value as they are payable on demand.

The carrying amounts of cash and cash equivalents, and other short-term instruments and obligations at the balance sheet date represent best estimates of fair value because of the relative short-term maturities of these assets and liabilities. Long-term obligations have been contracted at market terms and their carrying amounts approximate fair value to the extent it is practicable to estimate.

25. CREDIT RISK

Credit risk is the risk of loss arising from a counterparty to a financial contract failing to discharge its obligations. The Bank manages credit risk by selecting counterparties of high credit ratings. Credit risk is monitored, reviewed and analyzed to minimize the risk of loss.

26. COMMITMENTS AND CONTINGENCIES

- a. The Bank acted as guarantor to the Government of Belize in a United States dollar/Japanese Yen currency swap agreement with Citicorp which terminated in June 2005. Periodically, the swap agreement was valued and margin calls made, if necessary. At 31 December 2004, a margin call of \$5.2 million was made, charging as security under the guarantee an equivalent amount of the Bank's funds held with Citicorp. At the termination date, a margin call of US\$1.8 million was made contributing to an overall loss experience of US\$3.5 million over the term of the agreement. This loss has been charged to government's account with the Bank.
- b. The Bank is contingently liable as co-signer with the Government of Belize on promissory notes amounting to US\$50.8 million with International Bank of Miami.

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27. The financial statements were approved by the Board of Directors and authorized for issue on 27 April 2006.