

Central Bank of Belize

***Financial Statements for the Year
Ended December 31, 2007 and
Independent Auditors' Report***

CENTRAL BANK OF BELIZE

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1 – 2
FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2007:	
Balance Sheet	3 – 4
Statement of Operations	4 – 5
Statement of Changes in Equity	6
Statement of Cash Flows	7 – 8
Notes to Financial Statements	9 – 25



Castillo Sanchez & Burrell, LLP

40 A Central American Blvd
P.O. Box 1235
Belize City
Belize

Tel: +501 227 3020/5666
Fax: +501 227 5792
www.CSB-LLP.com
info@CSB-LLP.com

INDEPENDENT AUDITORS' REPORT

Julian Castillo, FCCA
Giacomo Sanchez, CPA
Claude Burrell, CPA CISA

To the Board of Directors of Central Bank of Belize:

Report on the Financial Statements

We have audited the accompanying financial statements of Central Bank of Belize, which comprise the balance sheet as of December 31, 2007, and the statement of operations, statement of changes in equity, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes. The financial statements for the year ended December 31, 2006 were audited by other auditors whose report dated February 14, 2007 expressed an unqualified opinion on those financial statements.

Audit & Risk Advisory
Business Solutions
Outsourcing
Real Estate
Corporate
Paralegal

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the Central Bank of Belize Act and the Banking and Financial Institutions Act of Belize. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's 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 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 the auditor's 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, the auditor considers 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Independent Auditors' Report

Page 2

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 present fairly, in all material respects, the financial position of Central Bank of Belize as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, the Central Bank Act, and the Banking and Financial Institutions Act of Belize.

Castillo Sanchez & Burrell, Ltd

Chartered Accountants

March 14, 2008

CENTRAL BANK OF BELIZE

BALANCE SHEET

DECEMBER 31, 2007 (IN BELIZE DOLLARS)

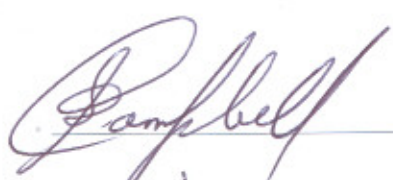


ASSETS	<u>Notes</u>	<u>2007</u>	<u>2006</u>
APPROVED EXTERNAL ASSETS:			
Balances and deposits with foreign bankers and Crown Agents	4	\$ 7,936,140	\$ 39,709,976
Reserve Tranche and balances with the International Monetary Fund	5	20,123,906	18,505,883
Other foreign credits instruments	6	166,125,946	129,000,000
Accrued interest and cash-in-transit	7,2k	1,427,895	798,866
Marketable securities issued or guaranteed by foreign government and international financial institutions	8	<u>2,000,000</u>	<u>2,000,000</u>
		197,613,887	190,014,725
BELIZE GOVERNMENT SECURITIES	9	120,716,478	139,979,534
BELIZE GOVERNMENT CURRENT ACCOUNT	10	100,123,484	77,215,718
BALANCES WITH LOCAL BANKERS AND CASH ON HAND		75,118	153,314
OTHER ASSETS	11	10,814,575	7,126,279
PROPERTY AND EQUIPMENT	12,2h	<u>29,777,252</u>	<u>30,083,887</u>
TOTAL ASSETS		<u>\$459,120,794</u>	<u>\$444,573,457</u>

The notes on pages 9 to 25 are an integral part of these financial statements.

CENTRAL BANK OF BELIZE

**BALANCE SHEET (CONTINUED)
DECEMBER 31, 2007 (IN BELIZE DOLLARS)**

LIABILITIES, CAPITAL AND RESERVES	<u>Notes</u>	<u>2007</u>	<u>2006</u>
DEMAND LIABILITIES:			
Notes and coins in circulation		\$185,773,149	\$169,354,339
Deposits by licensed financial institutions	13	149,482,134	152,283,691
Deposits by and balances due to Government and Public sector entities in Belize		82,006,733	85,031,994
Deposits by international agencies	14	<u>2,378,394</u>	<u>2,188,311</u>
		419,640,410	408,858,335
 BALANCES DUE TO CARICOM CENTRAL BANKS		 23,174	 197,880
 OTHER LIABILITIES	 15	 6,506,153	 4,183,765
 COMMERCIAL BANKS DISCOUNT FUND	 16	 <u>2,393,830</u>	 <u>2,745,321</u>
 TOTAL LIABILITIES		 428,563,567	 415,985,301
 CAPITAL ACCOUNT			
Paid up capital (Authorized capital \$10,000,000)		10,000,000	10,000,000
 REVALUATION ACCOUNT	 17	 4,015,306	 3,011,360
 GENERAL RESERVE FUND	 18	 <u>16,541,921</u>	 <u>15,576,796</u>
 TOTAL LIABILITIES, CAPITAL AND RESERVES		 <u>\$459,120,794</u>	 <u>\$444,573,457</u>

) GOVERNOR
)
) DIRECTOR
)
) DEPUTY GOVERNOR,
 OPERATIONS

The notes on pages 9 to 25 are an integral part of these financial statements.

CENTRAL BANK OF BELIZE

**STATEMENT OF OPERATIONS
DECEMBER 31, 2007 (IN BELIZE DOLLARS)**

INCOME	<u>Notes</u>	<u>2007</u>	<u>2006</u>
Interest			
Approved external assets	19	\$ 7,621,551	\$ 5,856,110
Advances to Government		12,269,943	13,330,420
Local securities		<u>4,723,747</u>	<u>2,803,990</u>
		24,615,241	21,990,520
Discount on local securities		2,181,552	2,183,670
Commissions and other income		<u>1,567,088</u>	<u>1,608,139</u>
TOTAL INCOME		28,363,881	25,782,329
LESS: Interest expense		<u>(5,516,193)</u>	<u>(1,642,742)</u>
Income from operations		<u>22,847,688</u>	<u>24,139,587</u>
EXPENDITURE			
Printing of notes and minting of coins		(1,712,404)	(1,547,726)
Salaries and wages, including superannuation contribution and gratuities	20	(6,972,186)	(5,884,117)
Depreciation		(974,960)	(1,111,255)
Administrative and general expenses	21	<u>(3,536,890)</u>	<u>(2,669,362)</u>
Total expenditure		<u>(13,196,440)</u>	<u>(11,212,460)</u>
NET PROFIT		9,651,248	12,927,127
NET PROFIT TRANSFERABLE TO THE GENERAL RESERVE FUND AND CONSOLIDATED FUND		9,651,248	12,927,127
Transfer to general reserve fund in accordance with Section 9(1) of the Act	18	<u>(965,125)</u>	<u>(1,292,713)</u>
Balance credited to the Accountant General for the Consolidated Revenue Fund		\$ <u>8,686,123</u>	\$ <u>11,634,414</u>

The notes on pages 9 to 25 are an integral part of these financial statements.

CENTRAL BANK OF BELIZE

**STATEMENT OF CHANGES IN EQUITY
DECEMBER 31, 2007 (IN BELIZE DOLLARS)**

	Share capital	Revaluation account	General reserve	Accumulated profits
January 1, 2006	\$10,000,000	\$2,081,924	\$14,284,083	\$ -
Net profit	-	-	-	12,927,127
Gain on revaluation	-	929,436	-	-
Transfer to Government of Belize	-	-	-	(11,634,414)
Transfer to General Reserve Fund	<u>-</u>	<u>-</u>	<u>1,292,713</u>	<u>(1,292,713)</u>
December 31, 2006	10,000,000	3,011,360	15,576,796	-
Net Profit	-	-	-	9,651,248
Gain on revaluation	-	1,003,946	-	-
Transfer to Government of Belize	-	-	-	(8,686,123)
Transfer to General Reserve Fund	<u>-</u>	<u>-</u>	<u>965,125</u>	<u>(965,125)</u>
December 31, 2007	<u>\$10,000,000</u>	<u>\$4,015,306</u>	<u>\$16,541,921</u>	<u>\$ -</u>

The notes on pages 9 to 25 are an integral part of these financial statements.

CENTRAL BANK OF BELIZE

STATEMENT OF CASH FLOWS YEAR ENDED DECEMBER 31, 2007 (IN BELIZE DOLLARS)

	<u>2007</u>	<u>2006*</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net profit	\$ 9,651,248	\$ 12,927,127
Adjustments to reconcile net profit to net cash provided by operating activities:		
- Amortization of intangible assets	180,827	57,815
- Depreciation of property and equipment	974,960	1,111,255
- (Gain) loss on disposal of property and equipment	(13,533)	14,326
Changes in assets and liabilities that provided (used) cash:		
Belize Government current account	(22,907,766)	11,321,064
Loans to public sector/commercial bank (Fixed deposits)	-	27,521,712
Treasury notes – net	200,000	(30,967,000)
Debentures	-	(2,000,000)
Reserve Tranche in the International Monetary Fund	(639,810)	(633,737)
Collateral deposits with foreign bankers	36,952,609	24,303,115
Other assets	(3,869,123)	1,312,616
Other liabilities	2,322,388	999,247
Revaluation Account	<u>1,003,946</u>	<u>929,436</u>
Net cash provided by operating activities	<u>23,855,746</u>	<u>46,896,976</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(689,792)	(580,155)
Proceeds from property and equipment	<u>35,000</u>	<u>4,651</u>
Net cash used in investing activities	<u>(654,792)</u>	<u>(575,504)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Notes and coins in circulation	16,418,810	26,264,991
Transfer to consolidated reserve fund	(8,686,123)	(11,634,414)
Deposits by licensed financial institutions	(2,801,557)	39,942,247
Deposits by and balances due to Government and Public Sector Entities	(3,025,261)	11,615,927
Deposits by international agencies	190,083	(252,022)
Balances due to Caricom Central Banks	(174,706)	(98,062)
Commercial Bank Discount Fund	<u>(351,491)</u>	<u>1,264,658</u>
Net cash provided by financing activities	<u>1,569,755</u>	<u>67,103,325</u>

* This statement has been reclassified to ensure that prior year numbers are presented on a consistent basis.

The notes on pages 9 to 25 are an integral part of these financial statements.

CENTRAL BANK OF BELIZE

**STATEMENT OF CASH FLOWS (CONTINUED)
YEAR ENDED DECEMBER 31, 2007 (IN BELIZE DOLLARS)**

	<u>2007</u>	<u>2006*</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	\$237,538,049	\$124,113,252
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>24,770,709</u>	<u>113,424,797</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$262,308,758</u>	<u>\$237,538,049</u>

**CASH AND CASH EQUIVALENTS COMPRISE
THE FOLLOWING:**

EXTERNAL ASSETS:

Balances and deposits with foreign bankers and Crown Agents	\$ 7,936,140	\$ 2,757,367
Other foreign credit instruments	166,125,946	129,000,000
Accrued interest	1,208,367	331,190
Cash-in-transit	219,528	467,676
Balance with the International Monetary Fund	<u>6,794,181</u>	<u>5,815,968</u>
	182,284,162	138,372,201

LOCAL ASSETS:

Cash and bank balances	75,118	153,314
Government of Belize Treasury Bills	68,145,478	85,736,534
Current portion of Treasury Notes	<u>11,804,000</u>	<u>13,276,000</u>
	<u>\$262,308,758</u>	<u>\$237,538,049</u>

* This statement has been reclassified to ensure that prior year numbers are presented on a consistent basis.

The notes on pages 9 to 25 are an integral part of these financial statements.

CENTRAL BANK OF BELIZE

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2007 (IN BELIZE DOLLARS)

1. GENERAL INFORMATION

Central Bank of Belize, (the Bank), was established under the Central Bank of Belize Act 1982, Chapter 262 of the Substantive Laws of Belize, and has its principal place of business in Belize City, Belize. Legislations covering its operations include the Central Bank of Belize Act and its amendments at May 31, 2003, the Banks and Financial Institutions Act and Regulations 2000, the International Banking Act 2003, the Money Laundering (Prevention) Act 2000, Regulations and Guidance Notes, the Financial Intelligence Unit Act 2002 along with a number of circulars.

The principal activity of the Bank is to foster monetary stability especially in regards 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 (IFRS), the Central Bank of Belize Act and the Banking & Financial Institutions Act. Certain prior year amounts which were audited by other auditors have been reclassified to conform to the 2007 presentation.

- a. Form of presentation of the financial statements - Adopted IFRS and the Central Bank of Belize 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 insofar as the Bank considers certain disclosures inappropriate to its functions.
- b. Change in accounting policies - The Bank has adopted for the first time IFRS 7 *Financial Instruments: Disclosures*. IFRS 7 *Financial Instruments: Disclosures* is mandatory for reporting periods beginning on January 1, 2007 or later. The new Standard replaces and amends disclosure requirements previously set out in IAS 30 *Disclosures in the Financial Statements of Banks and similar financial institutions* and certain of the disclosure provisions in IAS 32. The first-time application of IFRS 7, however, has not resulted in any prior-period adjustments of cash-flows, net income or balance sheet line items, as these are only concerned with disclosures.

In exceptional circumstances, as part of its central banking functions, the Bank may act as 'lender of last resort' to financial institutions in difficulty in order to prevent a loss of confidence spreading through the financial system as a whole. In some cases, confidence can best be sustained if the Bank's support is disclosed only when conditions giving rise to potentially systemic disturbance have improved.

CENTRAL BANK OF BELIZE

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED DECEMBER 31, 2007 (IN BELIZE DOLLARS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accordingly, although the financial effects of such operations will be included in the Bank's financial statements in the year in which they occur, these financial statements may not explicitly identify the existence of such support. However, the existence of such support will be reported without disclosing the identity of the relevant banking institution.

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

- Constituent elements of the Income Statement.
 - Note disclosures for income and expenses, particularly relating to net interest income and provisions.
 - Related disclosures in the Balance Sheet and Cash Flow Statement.
 - Business segments (IAS 8).
 - Contingent liabilities and guarantees.
 - Information on credit risk.
- c. The financial statements are prepared on the historical cost basis, modified to include the revaluation of certain assets and liabilities as identified in specific accounting policies below.
- d. All accounting estimates and assumptions that are used in preparing the financial statements are consistent with the Bank's latest approved budgeted forecast where applicable. Judgments are based on the information available at each balance sheet date. Although these estimates are based on the best information available to management, actual results may ultimately differ from those estimates.
- e. 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 Bank and in maintaining property, plant and equipment in a state of efficiency has been charged to income, thereby arriving at the profit for the year.

Miscellaneous income and expenses are recognized on an accrual basis.

CENTRAL BANK OF BELIZE

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED DECEMBER 31, 2007 (IN BELIZE DOLLARS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- f. Inventories – Inventories are carried at lower of cost or net realizable value. Cost is determined on a first-in-first-out basis.
- g. 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 the balance sheet date as published by the IMF are recognized in the Revaluation account in accordance with section 50 of the Act.

Foreign Marketable Securities

These consist of debentures issued by the Government of Dominica and are classified as held-to-maturity based on the Bank's positive intent and ability to hold these securities to maturity.

Belize Government Securities

The Bank's investment portfolio includes treasury bills, treasury notes and Belize Defence Bonds purchased from Government of Belize all of which the Bank has the positive intent and ability to hold to maturity. 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.

Loans to Public Sector

Loans to the public sector are carried at the original amount less an allowance for any uncollectible 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.

CENTRAL BANK OF BELIZE

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED DECEMBER 31, 2007 (IN BELIZE DOLLARS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- h. Property 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:

Property	1%, 5%
Furniture	10%
Equipment	10% – 25%
Vehicles	20%

- i. Employee benefits

Pension

The Bank operates a defined benefit pension scheme for employees. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement. The legal obligation for any benefits remains with the Bank, even if plan assets for funding the defined benefit plan have been set aside. 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 to participate in the 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.

Severance

With effect January 1, 2005, an employee with a minimum of ten years of continuous service who resigns his employment is eligible to one week severance pay for each year of service in addition to retirement benefits in accordance with the Central Bank of Belize Pension Scheme Trust Deed and Rules.

- j. 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 FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED DECEMBER 31, 2007 (IN BELIZE DOLLARS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. Foreign currency translation and exchange gains and losses – The Bank’s financial statements are presented in Belize dollars (BZD), which is the Bank’s functional and presentational currency.

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 (spot exchange rate).

iii. Revaluation

Section 50 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 are credited in a special account called Revaluation Account. Profit is not carried to the General Reserve Fund or paid to the Government under Section 9 (see note 18) when the Revaluation Account shows a net loss, but is first credited to the Revaluation Account in an amount sufficient to cover the loss.

l. Valuation of securities – Securities is 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.

m. Accrued interest and cash in-transit - Accrued interest and cash in-transit in respect of foreign assets are shown as part of external assets.

n. Taxation – In accordance with Article 52 of the Act, the Bank is exempt from the provision of any law relating to income tax or customs duties and from the payment of stamp duty.

o. Cash and cash equivalents - The Bank classifies as cash equivalents financial instruments with an original maturity of three months or less, and other balances that are readily marketable or convertible. The Bank’s cash management and investment policies are of a conservative nature and as a result, investments are made in high grade liquid securities. The carrying value of cash and cash equivalents approximates fair value.

CENTRAL BANK OF BELIZE

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED DECEMBER 31, 2007 (IN BELIZE DOLLARS)

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 December 31, 2007 and 2006 total approved external assets approximated 47 percent and 46 percent of such liabilities respectively.

4. BALANCES AND DEPOSITS WITH FOREIGN BANKERS AND CROWN AGENTS

There are no restricted foreign deposits. In 2006, \$36,952,609 of restricted collateral deposits were held in designated reserve accounts with Bank of New York and were primarily used to secure payments on notes payable to international lenders by Government of Belize.

5. RESERVE TRANCHE AND BALANCES WITH THE INTERNATIONAL MONETARY FUND

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 (Reserve Tranche) and the remainder in Belize dollars made up of currency and non-interest bearing promissory notes.

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

At December 31, 2007, Belize's subscriptions to the International Monetary Fund amounted to SDR 1,932,986 and the Bank's Reserve Tranche amounted to SDR 4,238,690. The Reserve Tranche which earns interest is included in approved external assets in the financial statements at the exchange rate of BZ\$3.1605 to SDR 1.0 at December 31, 2007 (2006 - BZ\$3.0088 to SDR 1.0).

CENTRAL BANK OF BELIZE

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED DECEMBER 31, 2007 (IN BELIZE DOLLARS)

6. OTHER FOREIGN CREDIT INSTRUMENTS

	<u>2007</u>	<u>2006</u>
These instruments comprise overnight deposits consisting of:		
Bank of America (Fixed Deposits)	\$ 50,000,000	\$ -
Crown Agents Financial Services (Fixed Deposits)	50,085,946	-
Federal Reserve Bank of New York	64,400,000	128,400,000
Bank of America (Overnight)	1,240,000	-
Citibank N.A. New York	400,000	600,000
	<u>\$166,125,946</u>	<u>\$129,000,000</u>

7. ACCRUED INTEREST AND CASH-IN-TRANSIT

Accrued interest and cash-in-transit consist of:

	<u>2007</u>	<u>2006</u>
Accrued interest	\$1,208,367	\$331,190
Cash-in-transit	219,528	467,676
	<u>\$1,427,895</u>	<u>\$798,866</u>

8. MARKETABLE SECURITIES ISSUED OR GUARANTEED BY FOREIGN GOVERNMENT AND FOREIGN FINANCIAL INSTITUTIONS

These securities, which are carried at cost, consist of 3.5% debentures issued by the Government of Dominica and maturing in 2034. The Bank has the positive intent and ability to hold these securities to maturity.

9. BELIZE GOVERNMENT SECURITIES

Belize Government securities consist of:

	<u>2007</u>	<u>2006</u>
3.25% Treasury Bills	\$ 68,145,478	\$ 85,736,534
9% Treasury Notes	42,571,000	44,243,000
8% Belize Defence Bonds	10,000,000	10,000,000
	<u>\$120,716,478</u>	<u>\$139,979,534</u>

The following table classifies the Bank's investments in Belize Government securities by the contractual maturity date of the security:

	<u>2007</u>	<u>2006</u>
Due within 1 year	\$ 79,949,478	\$ 99,012,534
Due within 1 year through 5 years	30,767,000	30,967,000
Due within 5 years through 10 years	10,000,000	10,000,000
	<u>\$120,716,478</u>	<u>\$139,979,534</u>

CENTRAL BANK OF BELIZE

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED DECEMBER 31, 2007 (IN BELIZE DOLLARS)

9. BELIZE GOVERNMENT SECURITIES (Continued)

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, subsequently amended to seven times in April 2006. At December 31, 2007 and 2006 the Bank's aggregate holding of Belize Government securities approximated 4.55 times and 5.47 times, respectively, the amount of paid up capital and general reserves of the Bank. Government securities are classified as held-to-maturity based on the Bank's ability to hold the securities to maturity. As these securities are not publicly traded, fair values have been estimated based on present values of the expected cash flows.

10. 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 December 31, 2007 and 2006 advances to Government represent approximately 86 percent and 73 percent of the authorized limit respectively.

11. OTHER ASSETS

	<u>2007</u>	<u>2006</u>
Other assets consist of:		
Inventory of notes and coins	\$ 4,172,404	\$3,003,514
Prepayments and accrued interest	4,838,877	1,966,617
Accounts receivable	1,439,006	1,473,234
Museum endowment fund	520,335	520,335
Other	<u>140,410</u>	<u>278,209</u>
	11,111,032	7,241,909
Less amortization:	<u>(296,457)</u>	<u>(115,630)</u>
	<u>\$10,814,575</u>	<u>\$7,126,279</u>

Museum endowment fund is being 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 (CMCF). Interest has not been recognized on the loan since October 2004. The decision was made by CMCF to write-off a proportional share as agreed with the Highly Indebted Poor Countries (HIPC) initiative in three equal payments of \$123,011. Once the write-off is complete in 2009, the remaining balance is expected to be received from CMCF and the HIPC Trust Fund.

CENTRAL BANK OF BELIZE

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED DECEMBER 31, 2007 (IN BELIZE DOLLARS)

12. PROPERTY AND EQUIPMENT

Cost	Property	Furniture	Equipment	Vehicles	Total
Balance at, January 1, 2007	\$30,441,554	\$1,081,796	\$5,411,640	\$379,339	\$37,314,329
Additions	-	87,165	446,968	155,659	689,792
Disposals	-	-	(54,319)	(61,000)	(115,319)
Balance at, December 31, 2007	<u>30,441,554</u>	<u>1,168,961</u>	<u>5,804,289</u>	<u>473,998</u>	<u>37,888,802</u>
Accumulated depreciation					
Balance at January 1, 2007	2,267,728	839,623	3,880,202	242,889	7,230,442
Depreciation charge for the year	280,626	75,984	558,187	60,163	974,960
Disposal	-	-	(54,405)	(39,447)	(93,852)
Balance at, December 31, 2007	<u>2,548,354</u>	<u>915,607</u>	<u>4,383,984</u>	<u>263,605</u>	<u>8,111,550</u>
Net book value					
December 31, 2007	<u>\$27,893,200</u>	<u>\$ 253,354</u>	<u>\$1,420,305</u>	<u>\$210,393</u>	<u>\$29,777,252</u>
December 31, 2006	<u>\$28,173,826</u>	<u>\$ 242,173</u>	<u>\$1,531,438</u>	<u>\$136,450</u>	<u>\$30,083,887</u>

13. DEPOSITS BY LICENSED FINANCIAL INSTITUTIONS

Under the revised provisions of Section 13 of the Banks and Financials Institutions Act 1995, licensed financial institutions are required to keep on deposits with the Bank an amount equivalent to at least 9% - effective January 1, 2006, subsequently amended to 10% effective September 2, 2006 - 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 and are comprised as follows:

	<u>2007</u>	<u>2006</u>
Commercial banks	\$147,682,134	\$150,483,691
International financial institutions	<u>1,800,000</u>	<u>1,800,000</u>
	<u>\$149,482,134</u>	<u>\$152,283,691</u>

14. DEPOSITS BY INTERNATIONAL AGENCIES

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

	<u>2007</u>	<u>2006</u>
Commission of the European Communities	\$ 772,987	\$ 271,188
International Monetary Fund	151,490	144,218
Caribbean Development Bank	103,736	70,522
Inter-American Development Bank	845,934	985,933
International Bank for Reconstruction and Development	<u>504,247</u>	<u>716,450</u>
	<u>\$2,378,394</u>	<u>\$2,188,311</u>

CENTRAL BANK OF BELIZE

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED DECEMBER 31, 2007 (IN BELIZE DOLLARS)

15. OTHER LIABILITIES

	<u>2007</u>	<u>2006</u>
Severance and gratuities	\$ 835,453	\$ 813,443
Abandoned property	2,404,670	2,208,394
Other	<u>3,266,030</u>	<u>1,161,928</u>
	<u>\$6,506,153</u>	<u>\$4,183,765</u>

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 June 30, 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 9-12 years and 31 equal semi-annual principal payments for 15 ½ years.

Reflows on-lent to DFC amounted to \$0 net of repayments in 2007 (2006 - \$107,730).

	<u>2007</u>	<u>2006</u>
Loan payable to USAID	\$ (894,380)	\$(1,321,989)
Loans receivable from institutions	-	<u>107,730</u>
	<u>(894,380)</u>	(1,214,259)
Interest paid to USAID	2,277,527	2,241,051
Interest received from institutions	<u>(3,776,977)</u>	<u>(3,772,113)</u>
	<u>\$(2,393,830)</u>	<u>\$(2,745,321)</u>

CENTRAL BANK OF BELIZE

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED DECEMBER 31, 2007 (IN BELIZE DOLLARS)

17. REVALUATION ACCOUNT

The Revaluation Account has been set up in compliance with Section 50 of the Act, where all profits or losses are carried to a special account called Revaluation Account.

	<u>2007</u>	<u>2006</u>
Net gain on revaluation of Reserve Tranche in the International Monetary Fund	\$ 955,118	\$ 912,943
Net gain on revaluations during the year	<u>3,060,188</u>	<u>2,098,417</u>
	<u>\$4,015,306</u>	<u>\$3,011,360</u>

18. 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 is paid into the Fund.

	<u>2007</u>	<u>2006</u>
Balance at beginning of year	\$15,576,796	\$14,284,083
Transfer from net profit	<u>965,125</u>	<u>1,292,713</u>
Balance at end of year	<u>\$16,541,921</u>	<u>\$15,576,796</u>

19. INTEREST ON APPROVED EXTERNAL ASSETS

	<u>2007</u>	<u>2006</u>
Interest earned on overnight deposits	\$6,748,988	\$5,194,099
Interest earned on marketable securities	70,000	70,000
Interest earned on balances and deposits with foreign bankers and Crown Agents	<u>802,563</u>	<u>592,011</u>
	<u>\$7,621,551</u>	<u>\$5,856,110</u>

CENTRAL BANK OF BELIZE

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2007 (IN BELIZE DOLLARS)**

20. SALARIES AND WAGES, INCLUDING SUPERANNUATION CONTRIBUTION AND GRATUITIES

Expense recognized for employee benefits is analyzed below:

	<u>2007</u>	<u>2006</u>
Wages and salaries	\$6,608,940	\$5,584,104
Social security costs	122,426	109,239
Pensions - defined benefit plans	<u>240,820</u>	<u>190,774</u>
Employee benefits expense	<u>\$6,972,186</u>	<u>\$5,884,117</u>

21. ADMINISTRATIVE AND GENERAL

	<u>2007</u>	<u>2006</u>
Advertising	\$ 34,242	\$ 25,815
Audit fees	45,220	33,000
Bad debt write off	180,827	57,815
Bank charges	30,621	26,786
Bank publications	28,464	13,905
Books and publication	48,945	30,168
Building repairs and maintenance	751,378	387,937
Cash shipment	25,663	26,981
Computer software license	77,220	68,832
Conference	81,281	64,577
Director's fees	16,500	12,800
Donations	52,714	42,409
Entertainment	17,299	12,171
Equipment maintenance	40,856	23,404
Firearms license and ammunitions	16,003	6,683
Freight charges	15,981	6,279
Hurricane preparedness	19,703	22,888
Insurance expense	112,576	111,219
Legal fees	57,968	9,900
Membership fees	66,409	54,546
Motor vehicle	65,257	65,510
Other miscellaneous expense	263,824	153,646
Overseas meeting and conferences	195,255	300,084
Professional services and technical support	163,765	101,217
Small equipment purchases	16,395	13,696
Supplies	215,999	192,294
Surveys	29,537	21,865
Travel (local)	8,782	6,001
Utilities expense	<u>858,206</u>	<u>776,934</u>
	<u>\$3,536,890</u>	<u>\$2,669,362</u>

CENTRAL BANK OF BELIZE

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED DECEMBER 31, 2007 (IN BELIZE DOLLARS)

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 \$240,820 (2006 - \$190,774) 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.

The last actuarial valuation done at December 31, 2004 reported the present value of past service liabilities and plan assets to be \$4,386,000 and \$6,477,000, 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. Pension will not increase in the course of payments.

Under the plan, the employees are entitled to retirement benefits varying between 60 and 70 percent 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.
- 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.

CENTRAL BANK OF BELIZE

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED DECEMBER 31, 2007 (IN BELIZE DOLLARS)

23. RELATED PARTY TRANSACTIONS (Continued)

Transactions with related party during the period were as follows:

	Belize Social Security Board	Development Finance Corporation	SSB Mortgage Securitization Proceeds	DFC Mortgage Securitization Proceeds	Financial Intelligence Unit	Belize Tourism Board	SSB Deposit Account	GOB Current Acct.
Opening Balances	\$ (437,881)	\$ (259,701)	\$(1,291,036)	\$ (2,266)	\$ (19,066)	\$ (254,042)	\$(32,584,102)	\$ 77,215,718
Deposits	1,623,587	22,104,555	2,345,000	3,206,266	470,056	6,852,932	9,548,798	(1,004,875,743)
Disbursements	(1,209,985)	(22,964,289)	(1,412,650)	(3,206,266)	(549,500)	(7,213,702)	(8,592,670)	1,027,783,509
Closing Balances	<u>\$ (24,279)</u>	<u>\$ (1,119,435)</u>	<u>\$ (358,686)</u>	<u>\$ (2,266)</u>	<u>\$ (98,510)</u>	<u>\$ (614,812)</u>	<u>\$(31,627,974)</u>	<u>\$ 100,123,484</u>

Key management personnel

The following information is presented only in respect of those employees of the Bank who would be considered as key management personnel, as defined under IAS 24 (Related Party Disclosures). This comprises of the Governor and Deputy Governor, and other members of the Board and non-executive Directors. At December 31, 2007, the number of key management personnel was 15 (2006: 14)

Compensations of key management personnel

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

	<u>2007</u>	<u>2006</u>
Short-term benefits	\$ 967,644	\$786,559
Post-employment benefits	32,505	21,375
Termination benefits	<u>84,651</u>	<u>82,037</u>
	<u>\$1,084,800</u>	<u>\$889,971</u>

Loans and advances to key management personnel

As at December 31, 2007 an amount of \$117,170 (2006 - \$111,639) was receivable from key managerial personnel as approved advances made by the Bank. No provisions have been recognised in respect of loans given to related parties.

All employees, excluding certain key management personnel, may choose to take personal loans (for periods up to 5 years at an interest rate of 5%) as part of their remuneration package.

CENTRAL BANK OF BELIZE

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED DECEMBER 31, 2007 (IN BELIZE DOLLARS)

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:

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 estimate 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. FINANCIAL RISK MANAGEMENT

Credit risk

The Bank is exposed to credit risk, which is the risk of loss arising from the failure of a borrower, issuer, counterparty or customer to meet its financial obligations to the Bank. Credit risk arises when the Bank provides liquidity to financial institutions via open market operations as part of monetary policy implementation; and in the Bank's management of its Balance Sheet, for example in the investment of the Bank's own funds and in the course of the banking services it provides to its customers.

CENTRAL BANK OF BELIZE

NOTES TO FINANCIAL STATEMENTS (CONTINUED) YEAR ENDED DECEMBER 31, 2007 (IN BELIZE DOLLARS)

25. FINANCIAL RISK MANAGEMENT (Continued)

In providing liquidity via open market operations and, via the Bank's operation of wholesale payment systems, credit risk is mitigated by dealing with counterparties that meet appropriate credit and functional criteria, and by ensuring that Cash Reserves and Liquid Asset Requirements for licensed financial institutions are met. In addition, credit risk on the securities held by the Bank is managed by holding only high-quality securities, issued chiefly by governments, government agencies and supranational organizations.

Market and interest rate risk

The Bank is exposed to market risk, principally through changes in the relative interest rates received on its assets and paid on its liabilities. Limited exposure may also be incurred to changes in exchange rates and to shifts in general market conditions, such as the liquidity of asset markets. The Bank manages this minimal exposure to market risk by projecting all liabilities without the dependence of interest earned on its assets. Also, the Bank's exposure to market risk as a result of changes in exchange rates is mitigated by having minimum required deposits in foreign currencies other than United States dollar.

Operational risk

The Bank is exposed to operational risk which can lead to financial losses through error, fraud or inefficiencies. The Bank mitigates this risk by constantly revisiting internal controls, adhering to the Fraud Policy and reliance on the Internal Audit function.

Liquidity risk

IFRS 7 requires an analysis of the Bank's assets and liabilities at the Balance Sheet date into relevant maturity groupings based on the remaining period to the contractual maturity date. This requirement is not relevant to the Central Bank which is the ultimate source of Belize dollar liquidity.

In managing the foreign currency liquidity risk, the Bank makes every effort to hold appropriate cash balances by forecasting and monitoring liquidity through cash flow matching and holding a portfolio of liquid foreign exchange reserves.

CENTRAL BANK OF BELIZE

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2007 (IN BELIZE DOLLARS)

26. AUTHORIZATION OF FINANCIAL STATEMENTS

No adjusting or significant non-adjusting events have occurred between the balance sheet date and the date of authorization on March 14, 2008 by the board.


GOVERNOR


DEPUTY GOVERNOR,
OPERATIONS

* * * * *