

PUBLIC DISCLOSURE AUTHORISED

CARIBBEAN DEVELOPMENT BANK



Draft Statement of Financial Position

For the Year Ended December 31, 2012

(Expressed in thousands of United States Dollars unless otherwise stated)

This Document is being made publicly available in accordance with the Bank's Information Disclosure Policy.

March 2013

Caribbean Development Bank
Ordinary Capital Resources

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

Index to the Financial Statements
For the year ended December 31, 2012

| | Page |
|-----------------------------------|--------|
| Independent Auditors' Report | 1 |
| Statement of Financial Position | 2 - 3 |
| Statement of Changes in Equity | 4 |
| Statement of Comprehensive Income | 5 |
| Statement of Cash Flows | 6 |
| Notes to the Financial Statements | 7 - 75 |

Independent Auditors' Report

To the Board of Governors of Caribbean Development Bank

We have audited the accompanying financial statements of the **Ordinary Capital Resources** of the **Caribbean Development Bank** (the Bank) which comprise the statement of financial position as of December 31, 2012, statement of changes in equity, statement of comprehensive income, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, 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.

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 the Ordinary Capital Resources of the Bank as of December 31, 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Chartered Accountants
Barbados

**CARIBBEAN DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES**

STATEMENT OF FINANCIAL POSITION

As of December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

| | <u>2012</u> | <u>2011</u> |
|--|---------------------------|---------------------------|
| Assets | | |
| Cash resources | | |
| Cash and cash equivalents - Note F | \$96,401 | \$79,163 |
| Investments | | |
| Debt securities at fair value through profit or loss - Note G | 400,509 | 244,242 |
| Loans | | |
| Loans outstanding – Note H | 972,332 | 1,007,537 |
| Derivative financial instruments | | |
| Cross currency interest rate swaps – Note I | 95,312 | 127,680 |
| Receivable from members | | |
| Non-negotiable demand notes - Notes J and Q | 43,802 | 44,363 |
| Maintenance of value on currency holdings – Note K | 2,692 | 1,121 |
| Subscriptions in arrears – Note L | <u>11,250</u> | <u>15,975</u> |
| | 57,744 | 61,459 |
| Receivables and Prepayments – Note M | 10,222 | 14,625 |
| Other assets | | |
| Property and equipment – Note N | <u>8,286</u> | <u>8,419</u> |
| Total assets | <u>\$1,640,806</u> | <u>\$1,543,125</u> |

The accompanying notes form an integral part of these financial statements

CARIBBEAN DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES

STATEMENT OF FINANCIAL POSITION...continued

As of December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

| | <u>2012</u> | <u>2011</u> |
|---|--------------------|--------------------|
| Liabilities and Equity | | |
| Liabilities | | |
| Accounts payable and accrued liabilities - Note O | \$4,616 | \$2,200 |
| Subscriptions in advance – Note P | 4,138 | 5,172 |
| Deferred income – Note Q | 875 | 875 |
| Post-employment obligations - Note R | 3,964 | 2,598 |
| Maintenance of value on currency holdings – Note K | 36 | 193 |
| Borrowings | | |
| Short term facility – Note S | 20,000 | 20,000 |
| Long term borrowings – Note S | <u>900,246</u> | 837,875 |
| | <u>920,246</u> | |
| Total Liabilities | <u>\$933,875</u> | <u>\$868,913</u> |
| Equity | | |
| Capital stock – Note T | | |
| Authorised capital – 312,971 (2011 – 312,971) shares | | |
| Subscribed capital – 247,455 (2011– 239,643) shares | 1,549,012 | 1,501,892 |
| Less callable capital – 193,125 (2011 – 187,032) shares | <u>(1,207,638)</u> | <u>(1,170,887)</u> |
| Paid-up capital – 54,330 (2011 – 52,611) shares | 341,374 | 331,005 |
| Less subscriptions not yet matured | <u>(122,629)</u> | <u>(144,644)</u> |
| Subscriptions matured | 218,745 | 186,361 |
| Retained earnings and Reserves – Note Q | <u>488,186</u> | <u>487,851</u> |
| Total Equity | <u>706,931</u> | <u>674,212</u> |
| Total Liabilities and Equity | <u>\$1,640,806</u> | <u>\$1,543,125</u> |

Approved on, by:

W^m. Warren Smith
President

Adrian T. Debique
Director (Ag), Finance & Corporate
Planning

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

**CARIBBEAN DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES**

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

| | Capital stock | Retained Earnings | Reserves | Total |
|---|--------------------------|------------------------------|-----------------|------------------|
| Balance at January 1, 2011 | \$157,433 | \$432,957 | \$14,110 | \$604,500 |
| Issued share capital | 28,928 | - | - | 28,928 |
| Total comprehensive income for the year | - | 40,784 | - | 40,784 |
| Balance at December 31, 2011 | \$186,361 | \$473,741 | \$14,110 | \$674,212 |
| Balance at January 1, 2012 | \$186,361 | \$473,741 | \$14,110 | \$674,212 |
| Issued share capital | 32,384 | - | - | 32,384 |
| Total comprehensive income for the year | - | 15,335 | - | 15,335 |
| Allocation from net income – Note T | - | (15,000) | - | (15,000) |
| Balance at December 31, 2012 | \$218,745 | \$474,076 | \$14,110 | \$706,931 |

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

**CARIBBEAN DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES**

STATEMENT OF COMPREHENSIVE INCOME

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

| | <u>2012</u> | <u>2011</u> |
|--|-----------------|-----------------|
| Interest and similar income | | |
| Loans – Note U | \$39,639 | \$40,582 |
| Investments and cash balances | 3,445 | 2,667 |
| | <u>43,084</u> | <u>43,249</u> |
| Interest expense and similar charges | | |
| Borrowings | 13,173 | 10,347 |
| Other financial (income) expenses - Note U | (3,390) | (2,822) |
| | <u>9,783</u> | <u>7,525</u> |
| Net interest income | <u>33,301</u> | <u>35,724</u> |
| Other (income)/expenses | | |
| Other income | (1,453) | (127) |
| Realized and unrealized fair value losses | (1,334) | 910 |
| Provision for loan losses – Note H | 2,538 | 3,000 |
| Administrative expenses – Note V | 11,029 | 10,183 |
| Foreign exchange translation | 60 | 210 |
| | <u>10,840</u> | <u>14,176</u> |
| Operating income | <u>22,461</u> | <u>21,548</u> |
| (Decrease)/increase in fair value of derivatives– Note X | (31,129) | 31,925 |
| Foreign exchange gain/(loss) in translation on Yen borrowings - Note S | 24,003 | (12,689) |
| Total comprehensive income for the year | <u>\$15,335</u> | <u>\$40,784</u> |

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

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

STATEMENT OF CASH FLOWS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

| | <u>2012</u> | <u>2011</u> |
|--|------------------|------------------|
| Operating activities: | | |
| Comprehensive income for the year | \$15,335 | 40,784 |
| Adjustments: | | |
| Unrealized (gain)/loss on debt securities | (705) | 1,013 |
| Depreciation | 1,398 | 1,453 |
| Gain on disposal of fixed assets | - | 11 |
| Decrease/(Increase) in fair value of derivatives | 31,129 | (31,925) |
| Interest income | (43,084) | (43,249) |
| Interest expense | 9,783 | 7,525 |
| Provision for losses on loans | 2,538 | 3,000 |
| Foreign exchange (gain)/loss in translation on Yen borrowings | (24,003) | 12,689 |
| Increase in amounts required to maintain the value of currency holdings | (2,762) | (1,262) |
| Net foreign exchange difference | (21) | (13) |
| Total cash flows used in operating activities before changes in operating assets and liabilities | (10,392) | (9,974) |
| Changes in operating assets and liabilities: | | |
| Decrease/(increase) in receivables | 4,403 | (3,577) |
| Increase in accounts payable | 3,782 | 1,063 |
| Net increase in debt securities at fair value through profit and loss | (155,449) | (141,737) |
| <i>Cash used in operating activities</i> | (157,656) | (154,225) |
| Disbursements made on loans | (49,481) | (94,867) |
| Principal repayments to the Bank on loans | 82,724 | 77,308 |
| Interest received | 42,395 | 43,513 |
| Interest paid | (8,157) | (7,219) |
| <i>Net cash used in operating activities</i> | (90,215) | (135,490) |
| Investing activities: | | |
| Purchase of property and equipment | (1,265) | (1,567) |
| Proceeds from sale of property and equipment | - | 11 |
| <i>Net cash used in investing activities</i> | (1,265) | (1,556) |
| Financing activities: | | |
| Borrowings: | | |
| Drawdowns | 338,630 | 225,216 |
| Repayments | (252,582) | (32,649) |
| Allocation of net income | (15,000) | - |
| Capital subscriptions | 32,384 | - |
| Decrease/(increase) in other receivables from members | 5,286 | (14,720) |
| <i>Net cash provided by financing activities</i> | 108,718 | 206,775 |
| Net increase in cash and cash equivalents | 17,238 | 69,729 |
| Cash and cash equivalents at beginning of year | 79,163 | 9,434 |
| Cash and cash equivalents at end of year – Note F | \$96,401 | \$79,163 |

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

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE A – NATURE OF OPERATIONS

The Caribbean Development Bank (CDB or the Bank) is an international organization established by an Agreement (Charter) signed in Kingston, Jamaica, on October 18, 1969 and accepted and ratified by all the member countries which are signatories thereto. The Charter entered into force on January 26, 1970 and CDB commenced operations on January 31, 1970. Since that time other countries became members of CDB by acceding to the Charter. The Charter is an international treaty which, together with the instruments of ratification and accession by member countries, has been deposited with the United Nations Secretary-General. CDB was established as a regional financial institution for the purpose of contributing to the harmonious economic growth and development of the member countries in the Caribbean (Region), with special and urgent regard to the needs of its less developed members. The Bank's headquarters is located in Wildey in the parish of Saint Michael in the island of Barbados.

The membership of the Bank is open to (a) States and Territories of the Region; (b) Non-Regional States which are members of the United Nations or of any of its specialized agencies or of the International Atomic Energy Agency; and (c) other Multilateral Development Banks.

The membership of the Bank is comprised of 21 regional states and territories and 5 non-regional states. A detailed listing of the membership is provided at Note R

Reducing poverty in the region is CDB's main objective. CDB's funding activities are carried out in its Borrowing Member Countries (BMCs) and these are financed mainly through its shareholder fund which is referred to as its Ordinary Capital Resources (OCR). In advancing this objective, the Bank participates in the selection, study and preparation of projects contributing to such development and where necessary, provides technical assistance.

The OCR is supplemented by the Special Development Fund (SDF) and Other Special Funds (OSF) which are separate funds with distinct assets and liabilities. There is no recourse to the OCR for obligations in respect of any of the SDF or OSF liabilities.

Mobilizing financial resources is an integral part of CDB's operational activities. In addition, CDB alone or jointly, administers on behalf of donors, including members, some of their agencies and other development institutions, funds restricted for specific uses, which include technical assistance grants and regional programmes.

CDB finances its ordinary operations through borrowings, paid-in capital and retained earnings.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, except where otherwise stated. Prior year comparatives have been amended to conform with the presentation in the current year.

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and have been prepared under the historical cost basis, except as modified by the revaluation of investment securities held at fair value through profit or loss and derivative financial instruments which have been reflected at fair value.

The financial statements comprise the statement of financial position, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes to the financial statements for the year ended December 31, 2012 (the reporting date).

The presentation format of the Bank's Statement of Comprehensive income was amended to reflect, in the opinion of management, enhanced information to the users of the Bank's financial statements mainly to reflect operating income from the Bank's core activities. Operating income represents the results upon which the Bank's financial, liquidity, efficiency and other performance ratios are determined.

The preparation of financial statements in conformity with IFRS requires management to make estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Bank's financial statements, therefore, present its financial position fairly. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note D.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations effective as at 1 January 2012:

Standards, amendments and interpretations not yet effective but which will be relevant to the Bank

Standards issued but not effective up to the date of issuance of the Bank's financial statements are listed below:

- IFRS 1, Government Loans (Amendment): 1 January 2013
- IFRS 7, Disclosures – Offsetting Financial Assets and Financial Liabilities: 1 January 2013
- IFRS 9, Financial Instruments Part 1: Classification and Measurement: 1 January 2015
- IFRS 13, Fair Value Measurement: 1 January 2013
- IAS 19, Employee Benefits (Revised): 1 January 2013
- IAS 27, Separate Financial Statements, 1 January, 2013
- IAS 32, Offsetting Financial Assets and Financial Liabilities (Amendment): 1 January 2014

The Bank is considering the implications of these standards, the impact on the Bank and the timing of their adoption by the Bank.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Standards, amendments and interpretations effective on or after January 1, 2012 and which are not relevant to the Bank

- IAS 12, Income Taxes – Recovery of Underlying Assets
- IAS 28, Investments in Associates and Joint Ventures
- IFRS 10, Consolidated Financial Statements
- IFRS 11, Joint Arrangements
- IFRS 12, Disclosure of Involvement with Other Entities
- IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine

Foreign currency translation

Functional and presentation currency

The functional and presentation currency of the Bank is the United States dollar and the Bank's financial statements are rounded to the nearest thousands. Monetary assets and liabilities in currencies other than United States dollars are translated into United States dollars at market rates of exchange prevailing at the reporting date. Non-monetary items measured at historical cost in currencies other than United States dollars are translated into United States dollars using the exchange rates at the dates of the initial transactions.

Foreign currency transactions are translated into United States dollars at applicable rates of exchange on the transaction dates. Any gains or losses arising as a result of differences in rates applied to income and expenses and to assets and liabilities are shown as an exchange gain or loss in the determination of net income (total comprehensive income) for the year.

Taxation

Under the provisions of Article 55 of the Charter the Bank's assets, property, income and its operations and transactions are exempt from all direct taxation.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... *continued*

Financial assets

In accordance with IAS 39, the Bank categorizes its assets as follows: financial assets at fair value through profit or loss and loans and receivables. Financial assets and financial liabilities are recognized on the statement of financial position when the Bank assumes related contractual rights or obligations and derecognized when the rights to secure cash flows from the financial asset expire or when all risks and rewards of ownership have been substantially transferred. Management determines the classification of its financial instruments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Financial assets designated at fair value through profit or loss upon initial recognition are managed and evaluated on a fair value basis and reported to key management on that basis. Once the asset has been so classified, it cannot be changed. Financial instruments in this category are included in the statement of financial position as 'Debt securities at fair value through profit and loss'. All of the Bank's investments are designated at fair value through profit and loss.

Financial assets carried at fair value through profit or losses are initially recognized at fair value, and transaction costs are expensed in the profit for the year in the statement of comprehensive income.

Gains and losses arising from changes in the fair value of financial assets through profit or loss are included in the profit for the year in the statement of comprehensive income in the period in which they arise.

Regular way purchases and sales of financial assets at fair value through profit or loss are recognized on the trade date which is the date the Bank commits to purchase or sell the asset.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...*continued*

(b) Loans and receivables

Loans and receivables are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(c) Derivatives recorded at fair value through profit and loss

The Bank uses derivatives such as cross currency interest rate swaps and forward exchange contracts in its borrowing and liability management activities to take advantage of cost-saving opportunities, to lower its funding costs and to align its interest rate profiles on its borrowings with that of its lending activities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are reflected as “Derivative fair value adjustment” in the statement of comprehensive income.

(d) Financial liabilities

Financial liabilities consist of long term borrowings, for which the fair value option is not applied, and are measured at amortized cost. Borrowings are recognized initially at fair value net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between proceeds net of transaction costs and the redemption value is recognized in the profit or loss for the year in the statement of comprehensive income over the period of the borrowings using the effective interest rate method.

Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or expires.

Determination of fair value

For financial instruments traded in active markets, the determination of fair values is based on quoted market prices or dealer price quotations. A financial instrument is regarded as quoted in an active market if prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm’s length basis. If the above criteria are not met, the market is regarded as being inactive.

For all other financial instruments, including derivatives, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows, or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at the reporting date.

The Bank uses widely recognized valuation models for determining fair values of non-standardized financial instruments such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market-observable.

An analysis of fair values of financial instruments is provided in Note C – Risk Management – “Fair value of financial assets and liabilities”.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Interest income and expense

Interest income and expense are recognized in the statement of comprehensive income for all interest-bearing instruments using the effective interest rate method based on the actual purchase price.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The estimated future cash flows projected in the effective interest rate method consider all contractual terms but do not consider future credit losses.

Commitment fee income

Fees are generally recognized on an accrual basis when the service has been provided.

Impairment of financial assets

CDB assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has/have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or groups of financial assets is/are impaired includes observable data that comes to the attention of the Bank about the following loss events including:

- (i) significant financial difficulty of the issuer or obligor;
- (ii) a breach of contract, such as a default or delinquency in interest or principal payments;
- (iii) the Bank granting to the borrower, for economic or legal reasons relating to the borrower’s financial difficulty, a concession that the Bank would not otherwise consider;
- (iv) it becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- (v) the disappearance of an active financial market for that financial asset because of financial difficulties; or

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...*continued*

Impairment of financial assets...*continued*

- (vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial asset in the group, including:
 - adverse changes in the payment status of borrowers; or
 - national or local economic conditions that correlate with defaults on the assets in the portfolio.

A provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the asset's carrying value and the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statement of comprehensive income.

The methodology used for assessing portfolio impairment for sovereign risk assets also takes into account the Bank's preferred creditor status afforded by members. This provision is calculated on an incurred loss basis. Any impairment is deducted from the asset categories on the statement of financial position.

The Bank assesses whether objective evidence of impairment exists individually for all its loans. Impairment, less any amount reversed during the year, is charged to the statement of comprehensive income. When a loan is deemed uncollectible, it is written off against the related impairment provisions. If, in a subsequent period, the amount of the impairment loss decreases, and the decrease can be related objectively to an event after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the provision amount and the amount of the reversal is recognized in the statement of comprehensive income.

Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. During 2011, the Board of Directors approved the restructuring of a private sector loan in which the borrower was given a moratorium on principal repayments until July 2012. This loan was fully repaid during the year.

Exceptional financial assistance

The Board also approved the conversion of the outstanding balances of some OCR portions of loans of a member country, into loans from CDB's Special Fund Resources at such date as CDB shall specify in writing, as part of a package of exceptional financial assistance. These conversions became effective on January 1, 2013.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...*continued*

Property and equipment

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be reliably measured. All repairs and maintenance are charged to other operating expenses during the financial year in which they are incurred.

Land is not depreciated as it is deemed to have an indefinite life. Depreciation of other assets is provided on the straight-line basis at rates considered adequate to write-off the cost of the assets over their useful lives as follows:

| | Years |
|-------------------------------|--------------|
| Buildings and ancillary works | 15-25 |
| Furniture and equipment | 4-8 |
| Computers | 4 |
| Motor vehicles | 4 |

The assets' residual value and useful lives are reviewed and adjusted if appropriate at each reporting date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The asset's recoverable amount is the higher of the impaired asset's fair value less costs to sell and the value in use.

Gains or losses on disposals are determined by comparing proceeds with the carrying amount and costs to sell. These are included in the other operating expenses in the statement of comprehensive income.

Deferred income

The deferred income relates to a Government grant of property. This property is freehold land with indefinite life and is therefore not subject to depreciation.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with maturities of three months or less from the date of acquisition, including cash, treasury bills and other eligible bills, amounts due from other banks and short-term government securities.

Commitments and contingencies

Provisions for restructuring costs and legal claims are recognized when the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. The Bank recognizes no provisions for future operating losses.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...*continued*

Commitments and contingencies...*continued*

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to settle the obligation using the rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Post-employment obligations

(a) Pension obligations

CDB has both a contributory defined benefit New Pension Plan (the Plan) and a hybrid Old Pension Scheme (the Scheme) for securing pensions and other benefits for eligible employees of the Bank. Both the Plan and the Scheme are final salary defined benefit and are managed by Trustees which are appointed by the management of the Bank and staff.

A defined benefit plan is a pension plan having terms that specify the amount of pension benefits to be provided at a future date or after a certain period of time; the amount specified usually is a function of one or more factors such as age, years of service, and compensation.

The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. Independent actuaries are engaged to calculate the defined benefit obligation using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of the Plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives. In the case of the hybrid scheme, gains and losses are immediately recognized in income. Past-service costs are recognized immediately in administrative expenses, unless the changes to the Pension Plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

The hybrid scheme provides the member at retirement with a choice between a defined benefit or a pension calculated on a defined benefit formula.

CARIBBEAN DEVELOPMENT BANK ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Post-employment obligations...continued

(b) Other post-retirement obligations

The Bank provides post-retirement medical benefits to its retirees. The expected costs of these benefits are accrued over the period using an accounting methodology similar to that for defined benefit pension plans. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows (relating to service accrued to the reporting date) using the yields available on high-quality corporate bonds.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the reporting date are discounted to their present value.

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument.

Financial guarantees are initially recognized as a liability in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation.

Valuation of Capital Stock

In the Charter, the capital stock of the Bank is expressed in terms of United States dollars of the weight and fineness in effect on September 1, 1969 (the 1969 dollar). However, with effect from April 1, 1978, the Second Amendment to the Articles of Agreement of the International Monetary Fund came into force, as a result of which currencies no longer have par values in terms of gold.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES...continued

Valuation of Capital Stock...continued

Prior to December 1986, the Bank had not taken a decision on the implications of this change on the valuation of its capital stock and had translated its capital stock into current United States dollars at the rate of 1.206348 current United States dollars (current dollars) per 1969 dollar. On December 11, 1986, the Board of Directors of the Bank agreed that, until such time as the Charter may be amended in respect of the standard of value, the expression "United States dollars of the weight and fineness in effect on September 1, 1969" be interpreted, pursuant to Article 59 of the Charter, to mean the "Special Drawing Right" (SDR) introduced by the International Monetary Fund as the SDR was valued in terms of United States dollars immediately before the introduction of the basket method of valuing the SDR on July 1, 1974, such value being 1.206348 current dollars for one SDR as at June 30, 1974 (the 1974 SDR).

For the purposes of the financial statements, the Bank has expressed the value of its capital stock on the basis of the 1974 SDR. This has no effect on the financial position or results of the operations of the Bank.

The Charter permits the Bank to accept from a member non-negotiable, non-interest-bearing demand notes in place of part of the member's subscription to the paid-up capital which shall be payable in the member's currency and maintenance of value in respect of such part, provided that such currency is not required for the conduct of the operations of the Bank.

Maintenance of value

In order to ensure that capital receipts due in other than US dollars retain at a minimum their value as determined in accordance with Article 24 of the Charter, each member is required to maintain the value of its currency held by the Bank and consisting of or derived as repayments of principal from currencies originally paid to the Bank by the member in respect of capital subscriptions. In the opinion of the Bank, where the value of a Member's currency depreciates or appreciates to a significant extent, the Bank or Member may be required to repay an amount of currency equal to the increase or decrease in the value of its currency which is held by the Bank in respect of capital subscriptions. For the purposes of effecting settlement, MOV obligations are established at December 31 in each year. The Board of Directors has agreed that MOV obligations on any part of a member's paid-up capital which is represented by loans outstanding be postponed and become payable on each portion of the principal of such loans when such portion is repaid to the Bank. MOV obligations that are not so deferred are due for settlement within 12 months of the date established.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. Under Article 33.4 the President is the Chief Executive Officer (CEO) and is required to conduct, under the direction of the Board of Directors (BOD) the current business of the Bank as well as the other matters set out in this paragraph. The President has set up a number of management Committees to assist with the discharge of those responsibilities.

In accordance with IFRS 8, the Bank has one operating segment, its Ordinary Capital Resources (OCR).

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE C – RISK MANAGEMENT

The very nature of the Bank's activities necessitates the analysis, evaluation, acceptance and management of some degree of financial risk. Operationally, CDB aims to achieve an appropriate balance between risk and return by adopting an appropriate mix of measures to mitigate the various types of risk to which it is exposed. These measures include the adoption of a variety of policies, guidelines and practices which together make up the Bank's risk management framework. These policies and practices are reviewed and modified periodically to reflect best practice and the institution's changing circumstances. Frequent reporting of the Bank's performance in relation to the established risk framework is strictly adhered to. The most important types of risk faced by CDB are associated with the borrowing member countries (country credit risk), liquidity risk, market risk and operational risk. Market risk includes currency, interest rate and other price risks.

Different bodies in the institution have been assigned the responsibility of monitoring and managing the varied types of risk faced by the Bank. Credit, liquidity and market risk are managed by the Finance and Corporate Planning Department and the Audit and Post-Evaluation Committee (APEC) assists the Board of Directors in discharging its responsibility for risk management. In the execution of its role, APEC assesses the effectiveness of financial policies and reporting, fiduciary controls, various aspects of financial, business, and operating risk, quality of earnings and internal controls. In addition, APEC discusses with management and the external auditors financial issues and policies that have an important bearing on the Bank's financial position and risk-bearing capacity.

The Bank's Loans Committee, which includes all the senior management of the Bank with the exception of the President, has principal responsibility for ensuring that adequate due diligence has been carried out by the staff on all investment and other projects and that all the relevant policies relating to lending, procurement, and other requirements are adhered to before recommendation is made to the President. This committee, therefore, plays an important role in managing operational risk.

The Bank's Investment Committee comprises the President, the two Vice-Presidents, the Director of Finance and Corporate Planning and the Director of Economics and provides oversight of the investment function. It monitors adherence to the investment guidelines which have been approved by the Board of Directors. It also approves shifts in the Bank's investment strategy based on internal liquidity needs and changes in the external economic environment. The Committee also monitors investment performance in relation to the established benchmarks, counterparty creditworthiness and the valuation of derivatives.

Credit risk

The major risk to CDB as a multilateral development bank is its exposure to country credit risk. This risk relates to potential losses to CDB in the event that a borrowing member is unable or unwilling to service its obligations to the Bank. CDB manages its country credit risk through its financial policies and lending strategies, including individual country exposure limits and overall creditworthiness assessments. These include ongoing assessments of a country's macroeconomic performance as well as its socio-political conditions and future growth prospects. The individual country's exposure to the Bank on outstanding loans as at December 31, 2012 is reported in Note H.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE C – RISK MANAGEMENT...continued

Credit risk...continued

The Bank manages its credit risk on liquid funds and derivative financial instruments by ensuring that no individual investments can have a credit rating less than A-/A3 (by Standard & Poor's and Moody's respectively) for commercial bank obligations and AA-/ Aa3 for government obligations. In addition, in relation to derivative transactions, all counterparties must be rated not less than A/A2 at the commencement of the transactions.

Credit risk measurement

(a) Loans and advances

CDB's capital adequacy methodology is used in measuring its loan portfolio credit risk and is constructed around three components:

- (i) the 'probability of default' by the counterparty on its contractual obligations;
- (ii) current exposures to the counterparty and its likely future development, from which the Bank derives the 'exposure at default'; and
- (iii) the likely recovery ratio on the defaulted obligations (the loss given default).

These credit risk measurements, when combined, reflect expected and unexpected (economic) losses on the portfolio (the expected loss model) and are based on the recommendations of the Basel Committee on Banking Regulations and Supervisory Practices (the Basel Committee).

(i) The Bank's capital adequacy model assesses the probability of default of individual borrowers on the basis of external ratings. For borrowers without an external rating, judgement and bench-marking against similar credit are used to assign an appropriate rating. Borrowers are segmented into four rating classes. The rating scale, shown below, reflects the range of default probabilities defined for each rating class. This means that, in principle, exposures migrate between classes as the assessment of their probability of default changes. The rating tools are kept under review and upgraded as necessary.

Internal ratings scale and mapping of external ratings are as follows:

| CDB's Rating | Description of the grade | External rating: Standard & Poor's equivalent |
|---------------------|---------------------------------|--|
| 1 | Investment grade | AAA, AA+, AA- A+, A- |
| 2 | Standard monitoring | BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B- |
| 3 | Special monitoring | CCC to C |
| 4 | Sub-standard | D |

The ratings of the major rating agency shown in the table above are mapped to the rating classes based on the long-term average default rates for each external grade. External ratings where available are used to benchmark the internal credit risk assessment. Observed defaults per rating category vary year on year, especially over an economic cycle.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE C – RISK MANAGEMENT...*continued*

Credit risk measurement...*continued*

(ii) Exposure at default is based on the amounts expected to be owed at the time of default. Whenever the model is run, the loans outstanding for the individual countries at that point in time are used as the exposure at default. However, because of the Bank's small exposure to the private sector, these loans are all placed in a single group.

(iii) Loss given default or loss severity represents the Bank's expectation of the extent of loss on a claim should default occur. CDB's experience, its loan portfolio being predominantly sovereign, is that the actual loss incurred at default is the opportunity cost of the income foregone as a result of not receiving the debt payment on schedule. The historical experience is that the Bank eventually recovers all of the outstanding amounts, including the penalty interest charge.

(b) Debt securities and other bills

CDB's Investment Guidelines limit the quality of the instruments that the Bank can hold in its investment portfolio. No individual investment can have a credit rating less than A-/ A3 (by Standard & Poor's and Moody's respectively). However, CDB can invest non-freely convertible currencies in unconditional obligations issued or guaranteed by indigenous commercial banks provided that no such bank holds more than \$1,000 of the investible amount of the given currency or 10% of CDB's capital, whichever is smaller.

Risk limit control and mitigation measures

The Bank manages limits and controls concentration of credit risk. The financial policies limit the amount of exposure in relation to a single borrower and to groups of borrowers. These risks are monitored on a quarterly basis and subject to more frequent review, when necessary. Currently the approved exposure limit to the single largest borrower is 50% of the Bank's capital (as defined) and the limit for the three largest borrowers is 120% of capital (as defined).

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a borrower as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payment, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a borrower authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing. The Bank currently does not have any such exposures.

CDB loans are usually fully disbursed over several years. As a result, the Bank continues to have undisbursed balances of approved loans. The liquidity risk remains with the Bank as it is required to provide funds to the borrowers when requested. This risk is managed by conformity to the Bank's policy of maintaining a net three years' funding requirement or 40% of undisbursed loan commitments and approvals not yet effective, whichever is greater.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE C – RISK MANAGEMENT...*continued*

Credit related commitments...*continued*

Derivative transactions while providing effective economic hedges under the Bank's risk management position do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading, with fair value gains and losses reported in income.

CDB has a potential risk of loss if a swap counterparty fails to perform its obligations, and in order to reduce such credit risk, CDB only enters into long-term swap transactions with counterparties eligible under CDB's swap guidelines which include the requirement that counterparties have a credit rating of A/A2 by Standard & Poor's or Moody's respectively, or higher. During the year the credit rating of one of the counterparties fell below the Bank's minimum standards as a result of which the existing swap agreement with this counterparty was novated and an agreement concluded on the existing terms and conditions with another counterparty which met the Bank's minimum requirements.

Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it may undertake a significant volume of transactions. Master netting arrangements do not generally result in an offset of statement of financial position assets and liabilities as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period since it is affected by each transaction subject to the arrangement. CDB currently does not have more than one swap with any counterparty.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE C – RISK MANAGEMENT...continued

Impairment and provisioning policies

The rating system described previously focused more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognized for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements is usually lower than the amount determined from the expected loss model that is used for internal operational management. The impairment provision in the statement of financial position at year-end is derived from an assessment of collateral held and anticipated receipts for that account. The following table provides an analysis of the internal rating categories of the Bank's loans and the associated impairment provision made within:

Bank's rating

| As at December 31 | 2012 | | 2011 | |
|--|------------------|--------------------------|--------------------|--------------------------|
| | Loans | Impairment Provision (%) | Loans | Impairment Provision (%) |
| Investment grade | \$30,268 | - | \$37,519 | - |
| Standard monitoring | 467,760 | - | 477,970 | - |
| Special monitoring | 401,721 | - | 486,544 | - |
| Sub-standard | 72,583 | 100 | 5,504 | 100 |
| Total (inclusive of accrued interest) | \$972,332 | 100 | \$1,007,537 | 100 |

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based, at a minimum, on the following criteria:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of the collateral;
- Downgrading below investment grade level; and
- Economic condition of the country.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE C – RISK MANAGEMENT...*continued*

Bank's rating ...*continued*

The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually, or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held and the anticipated receipts for that individual account. As at December 31, 2012 and 2011, two loans were assessed as impaired in the private sector loan portfolio.

No collective assessment for impairment allowances are provided for due to the limited number of the Bank borrowers. As at December 31, 2012 and 2011, no impairment was assessed in the public sector loan portfolio.

Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposure relating to assets included on the statement of financial position is as follows:

| As at December 31 | 2012 | 2011 |
|--|--------------------|--------------------|
| Cash and cash equivalents | \$96,401 | \$ 79,163 |
| Debt securities at fair value through profit or loss | 400,509 | 244,242 |
| Public sector loans | 924,714 | 958,564 |
| Private sector loans | 47,618 | 48,973 |
| Cross currency interest rate swaps | 95,312 | 127,680 |
| Non-negotiable demand notes | 43,802 | 44,363 |
| Maintenance of value on currency holdings | 2,692 | 1,121 |
| Subscriptions in arrears | 11,250 | 15,975 |
| Other assets | 10,222 | 14,625 |
| | \$1,632,520 | \$1,534,706 |
| Undisbursed loan balances | | |
| Public sector | 261,349 | 195,461 |
| Private sector | 23,925 | 34,514 |
| | \$1,917,794 | \$1,764,681 |

The above table represents a worst case scenario of credit risk exposure as at December 31, 2012 and 2011, without taking account of any collateral held or other credit enhancements attached.

For assets included on the statement of financial position, the exposures set out above are based on net carrying amounts as reported in the statement of financial position.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE C – RISK MANAGEMENT...*continued*

Maximum exposure to credit risk before collateral held or other credit enhancements...*continued*

As shown, the total maximum exposure derived from loans and commitments to the public sector was 61.8% (2011: 65.4%), and to the private sector was 3.7% (2011: 4.7%).

Loans and advances

Loans are summarized as follows:

| | December 31, 2012 | | December 31, 2011 | |
|--------------------------------|-------------------|----------------|-------------------|----------------|
| | Public Sector | Private Sector | Public Sector | Private Sector |
| Neither past due nor impaired | \$889,334 | \$44,112 | \$937,696 | \$43,254 |
| Past due but not impaired | 35,380 | - | 20,868 | - |
| Impaired | - | 11,090 | - | 10,765 |
| Gross | 924,714 | 55,202 | 958,564 | 54,019 |
| Less: allowance for impairment | - | (7,584) | - | (5,046) |
| Net | \$924,714 | 47,618 | \$958,564 | \$48,973 |

During the year ended December 31, 2012, loans that were neither past due nor impaired represented 96% (2011: 97%) of loans outstanding.

Loans and advances neither past due nor impaired

The credit quality of the loan portfolio that was neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

| | Loans at December 31, 2012 | | |
|---------------------|----------------------------|----------------|-------------|
| | Public Sector | Private Sector | Total Loans |
| Investment grade | 30,268 | - | 30,268 |
| Standard monitoring | 467,760 | - | 467,760 |
| Special monitoring | 318,723 | 44,112 | 362,835 |
| Sub-standard | 72,583 | - | 72,583 |
| Total | 889,334 | 44,112 | 933,446 |

| | Loans at December 31, 2011 | | |
|---------------------|----------------------------|----------------|-------------|
| | Public Sector | Private Sector | Total Loans |
| Investment grade | \$37,517 | \$ - | \$37,517 |
| Standard monitoring | 477,970 | - | 477,970 |
| Special monitoring | 422,209 | 43,254 | 465,463 |
| Total | \$937,696 | \$43,254 | \$980,950 |

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE C – RISK MANAGEMENT...continued

Loans and advances ...continued

General banking reserve

Loan loss provisions amounting to \$7,856 (2011: \$7,856) are deemed to be a provision for general banking risks and are reported as a general banking reserve in Equity and reserves.

Loans and advances past due but not impaired

Gross loans and advances by class to customers that were past due but not impaired were as follows:

| | Loans at December 31, 2012 | | |
|------------------------|----------------------------|----------------|-----------------|
| | Public Sector | Private Sector | Total Loans |
| Past due up to 30 days | \$14,439 | \$- | \$14,439 |
| Past due 30 – 60 days | - | - | - |
| Past due 60 – 90 days | - | - | - |
| Over 90 days | 20,941 | - | 20,941 |
| Total | \$35,380 | \$- | \$35,380 |

| | Loans at December 31, 2011 | | |
|------------------------|----------------------------|----------------|-----------------|
| | Public Sector | Private Sector | Total Loans |
| Past due up to 30 days | \$2 | \$- | \$2 |
| Past due 30 – 60 days | - | - | - |
| Past due 60 – 90 days | 20,866 | - | 20,866 |
| Over 90 days | - | - | - |
| Total | \$20,868 | \$- | \$20,868 |

Non-negotiable demand notes

At December 31, 2012, no non-negotiable demand notes are considered to be impaired.

Collateral

CDB does not take collateral on its public sector loans. For private sector loans, CDB will require its commitments to be secured. The nature and extent of the security will be determined on a case-by-case basis. The Loans (CDB) Acts or other applicable legislation are enacted in the various BMC's and authorize the governments to raise loans from CDB, guarantee loans by CDB to statutory authorities and provide for repayment of any loan made by CDB to the Government or to any statutory corporation, to be charged upon and paid out of the consolidated fund. CDB also derives comfort from the negative pledge condition included in its loan agreements. This provision prohibits, except with CDB's consent, the charging of Government assets to secure external indebtedness unless CDB is equally and rateably secured. Furthermore, CDB continues to be accorded preferred creditor status by its BMCs being members of the Bank.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE C – RISK MANAGEMENT...continued

Collateral...continued

For lines of credit to private sector financial intermediaries, a guarantee has been accepted from a parent and/or a trust arrangement under which the sub-loans financed by the line are pooled and assigned in the event of default. The fair value of the pool is the future expected cash flows of the sub-loans discounted by their interest rate. Marketable assets secure direct loans to the private sector, while the fair value is the observable market price of the asset. The fair value of the collateral on the impaired private sector loans was estimated at \$17,050 (2011 - \$26,800).

Debt securities, treasury bills and other eligible bills

The main investment management objectives are to maintain capital preservation and liquidity. Subject to these parameters, CDB seeks the highest possible return on its investments. CDB is restricted by its Investment Policy to invest in government and government-related debt instruments and in time deposits. Investments may be made in corporate bonds rated A-/A3, or better, AAA rated asset-backed securities, and AAA-rated mortgage-backed securities. Adherence to the investment policy guidelines is monitored on a monthly basis by the Investment Committee.

The following tables present an analysis of debt securities, treasury bills and other eligible bills by rating agency designation at December 31, 2011 and 2010, based on Standard & Poor's ratings or their equivalent:

| Type | 2012 | | | | | Total |
|--|-----------|---------------|----------|---------|--|-----------|
| | Ratings | | | | | |
| | AAA | AA+ to AA- | A+ to A- | Unrated | | |
| Obligations guaranteed by Governments ¹ | \$73,592 | \$127,764 | \$- | \$ - | | \$201,356 |
| Euro Commercial Paper | 9,995 | - | - | - | | 9,995 |
| Time Deposits | - | 4,774 | - | 1,267 | | 6,041 |
| Sovereign Bond | 10,423 | 26,265 | - | - | | 36,688 |
| Supranational Bonds | 141,324 | 5,105 | - | - | | 146,429 |
| Total | \$235,334 | \$163,908 | \$- | \$1,267 | | \$400,509 |

Of the total debt securities, \$57,869 (14.5%) [2011 - \$95,626 (39.2%)] represents exposure to the Eurozone. As at December 31, 2012, the Bank's exposure was with the European Investment Bank, the Council of Europe Development Bank, Germany, France, Netherlands and Austria.

¹ Freely convertible currencies in Government and Government-guaranteed obligations which are members of the G7 or EU and its agencies.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE C – RISK MANAGEMENT...continued

Debt securities, treasury bills and other eligible bills...continued

| Type | 2011 | | | | Total |
|--|------------------|------------------|----------------|----------------|------------------|
| | AAA | AA+ to AA- | A+ to A- | Unrated | |
| Obligations guaranteed by Governments ¹ | \$69,868 | \$74,888 | \$ - | \$3,171 | \$147,927 |
| Euro Commercial Paper | 9,972 | - | - | - | 9,972 |
| Time Deposits | - | 325 | - | 1,565 | 1,890 |
| Sovereign Bond | 3,081 | 25,737 | 7,668 | - | 36,486 |
| Supranational Bond | 47,967 | - | - | - | 47,967 |
| Total | \$130,888 | \$100,950 | \$7,668 | \$4,736 | \$244,242 |

Concentration of risks of financial assets with credit risk exposure

The following table breaks down CDB's main credit exposure at their carrying amounts, as categorized by Borrowing Member Countries and non-regional members, USA, and other countries. For this table, the exposures are allocated to regions based on the country of domicile of the counterparties. A further analysis of the Bank's exposure on loans by geographical region is provided at Note H.

| | 2012 | | | | Total |
|---|----------------------|-----------------------------|------------------|------------------|--------------------|
| | Borrowing Members | Non- Regional Members | USA | Other | |
| Cash and cash equivalents | \$6,762 | \$883 | \$88,756 | \$- | \$96,401 |
| Debt securities at fair value through profit or loss | 1,266 | 54,203 | 146,364 | 198,676 | 400,509 |
| Public sector loans | 924,714 | - | - | - | 924,714 |
| Private sector loans | 47,618 | - | - | - | 47,618 |
| Cross currency interest rate swaps | - | - | 95,312 | - | 95,312 |
| Maintenance of value on currency holdings | 563 | 2,129 | - | - | 2,692 |
| Non-negotiable demand notes | 35,378 | 8,424 | - | - | 43,802 |
| Subscriptions in arrears | 11,250 | - | - | - | 11,250 |
| Receivables and prepayments | 10,222 | - | - | - | 10,222 |
| Total, December 31 | \$1,037,773 | \$65,639 | \$330,432 | \$198,676 | \$1,632,520 |

¹ Freely convertible currencies in Government and Government-guaranteed obligations which are members of the G7 or EU and its agencies.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE C – RISK MANAGEMENT...continued

Concentration of risks of financial assets with credit risk exposure...continued

| | 2011 | | | | |
|---|----------------------|-----------------------------|------------------|-------------------|--------------------|
| | Borrowing Members | Non- Regional Members | USA | Other | Total |
| Cash and cash equivalents | \$8,723 | \$1,838 | \$68,602 | \$ - | \$79,163 |
| Debt securities at fair value through profit or loss | 2,970 | 35,585 | 102,093 | 103,594 | 244,242 |
| Public sector loans | 958,564 | - | - | - | 958,564 |
| Private sector loans | 48,973 | - | - | - | 48,973 |
| Cross currency interest rate swaps | - | - | 127,680 | - | 127,680 |
| Maintenance of value on currency holdings | 36 | 1,085 | - | - | 1,121 |
| Non-negotiable demand notes | 35,953 | 8,410 | - | - | 44,363 |
| Subscriptions in arrears | 14,725 | 1,250 | - | - | 15,975 |
| Receivables and prepayments | 14,625 | - | - | - | 14,625 |
| Total, December 31 | \$1,084,569 | \$48,168 | \$298,375 | \$ 103,594 | \$1,534,706 |

CDB's membership is classified into regional and non-regional members. Except for three, the regional members are members of CARICOM and are further sub-divided into borrowing and non-borrowing members.

Non-regional members are shareholders from outside of the Caribbean region and comprise Canada, United Kingdom, Germany, Italy and China.

Market risk

CDB takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, and foreign exchange rates.

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the values of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks.

Foreign exchange risk

CDB takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. All loans by the Bank are made either from currencies available from members' subscriptions or from currencies borrowed and the principal amounts are repayable to the Bank in the currencies lent. The Bank manages exchange risk on borrowings by entering into currency swaps. The following table summarizes the exposure to foreign currency exchange rate risk. Included in the table are the financial instruments at carrying amounts, categorized by currency. As at December 31, 2012 and 2011, all loans were denominated in United States dollars.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE C – RISK MANAGEMENT...continued

Concentrations of currency risk

| As at December 31 | 2012 | | | Total |
|---|--------------------|--------------------|-----------------|--------------------|
| | US\$ | Yen | Other | |
| Assets | | | | |
| Cash and cash equivalents | \$88,794 | \$- | \$7,607 | \$96,401 |
| Debt securities at fair value through profit and loss | 377,119 | - | 23,390 | 400,509 |
| Loans | 972,332 | - | - | 972,332 |
| Cross currency interest rate swaps | 95,312 | - | - | 95,312 |
| Receivable from members | 41,024 | - | 16,720 | 57,744 |
| Receivables and prepayments | 2,404 | - | 7,818 | 10,222 |
| Total financial assets | \$1,576,985 | \$- | \$55,535 | \$1,632,520 |
| Liabilities | | | | |
| Maintenance of value on currency holdings | 36 | - | - | 36 |
| Accounts payable | 4,616 | - | - | 4,616 |
| Subscriptions in advance | 4,138 | - | - | 4,138 |
| Borrowings | 701,961 | 220,245 | - | 922,206 |
| Total financial liabilities | \$710,751 | \$220,245 | \$- | \$930,996 |
| Net on-balance sheet financial position | \$866,234 | \$(220,245) | \$55,535 | \$701,524 |
| Credit commitments | \$320,326 | \$- | \$- | \$320,326 |
| 2011 | | | | |
| As at December 31 | US\$ | Yen | Other | Total |
| Assets | | | | |
| Cash and cash equivalents | \$68,602 | \$- | \$10,561 | \$79,163 |
| Debt securities at fair value through profit and loss | 224,622 | - | 19,620 | 244,242 |
| Loans | 1,007,537 | - | - | 1,007,537 |
| Cross currency interest rate swaps | 127,680 | - | - | 127,680 |
| Receivable from members | 44,179 | - | 17,280 | 61,459 |
| Receivables and prepayments | 9,206 | - | 5,419 | 14,625 |
| Total financial assets | \$1,481,826 | \$- | \$52,880 | \$1,534,706 |
| Liabilities | | | | |
| Maintenance of value on currency holdings | 193 | - | - | 193 |
| Accounts payable | 2,200 | - | - | 2,200 |
| Subscriptions in advance | 5,172 | - | - | 5,172 |
| Borrowings | 612,701 | 245,174 | - | 857,875 |
| Total financial liabilities | \$620,266 | \$245,174 | \$- | \$865,440 |
| Net on-balance sheet financial position | \$861,560 | \$(245,174) | \$52,880 | \$669,266 |
| Credit commitments | \$285,274 | \$- | \$- | \$285,274 |

**CARIBBEAN DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE C – RISK MANAGEMENT...*continued*

Concentrations of currency risk

The Bank has entered into currency swap agreements by which proceeds of two borrowings were converted into US dollars in order to hedge against ongoing operational currency risks.

If the Japanese Yen exchange rate had been 10% higher, CDB's comprehensive income for the year ended December 31, 2012, would have increased by \$19,689. If the Japanese Yen exchange rate had been 10% lower, CDB's comprehensive income would have decreased by \$24,804 for the year ended December 31, 2012.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE C – RISK MANAGEMENT...*continued*

Interest rate risk...*continued*

If interest rates had been 50 bps higher or lower and all other variables were held constant, CDB's net income for the year ended December 31, 2012, would have increased or decreased by \$2,679. In 2011, an increase or decrease of 50 bps would have resulted in an increase or decrease of \$6,734.

With respect to debt securities if there was a decrease of 50 bps in credit spread, CDB's profit for the year would increase by \$2.1 mn and if there was an increase of 50 bps in credit spread, the Bank's profit for the year would decrease by \$2.1 mn.

The sensitivity analyses are based on the exposure to interest rates for both derivatives and non-derivative instruments at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year. A 50 bps increase or decrease is used and represents management's assessment of a reasonable possible change in interest rates.

Liquidity risk

Liquidity risk relates to the probability that the Bank is unable to meet the payment obligations associated with its financial liabilities when they fall due. The consequence may be the failure to meet obligations to disburse on its commitments.

Liquidity risk management process

CDB's liquidity management process includes:

- Day-to-day disbursements, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by its BMCs. CDB maintains an active presence in international money markets to enable this to happen;
- The securing of a short term credit line to meet immediate or urgent requirements;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow; and
- Managing the concentration and profile of debt maturities.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE C – RISK MANAGEMENT...continued

Liquidity risk...continued

Non-derivative cash flows

The table below presents the cash flows by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| At December 31 | 2012 | | | | Total |
|---|------------------|------------------|------------------|------------------|--------------------|
| | 0 – 3 months | 3-12 months | 1-5 years | Over 5 years | |
| Assets | | | | | |
| Cash and cash equivalents | \$96,401 | \$- | \$- | \$- | \$96,401 |
| Debt securities at fair value through profit and loss | 47,993 | 63,977 | 227,446 | 72,937 | 412,353 |
| Loans | 46,918 | 84,860 | 438,726 | 654,495 | 1,224,999 |
| Receivable from members | - | - | - | 57,744 | 57,744 |
| Receivables & prepayments | 1,717 | 4,281 | 4,224 | 1 | 10,222 |
| Total Assets | \$193,028 | \$153,118 | \$670,396 | \$785,177 | \$1,801,719 |
| Liabilities | | | | | |
| Accounts payable | \$4,147 | \$2 | \$32 | \$55 | \$4,236 |
| Maintenance of value on currency holdings | - | - | - | 36 | 36 |
| Borrowings | 29,755 | 196,907 | 272,233 | 688,268 | 1,187,163 |
| Total Liabilities | \$33,902 | \$196,909 | \$272,265 | \$688,360 | \$1,191,435 |
| 2011 | | | | | |
| At December 31 | 0 – 3 months | 3-12 months | 1-5 years | Over 5 years | Total |
| Assets | | | | | |
| Cash and cash equivalents | \$79,163 | \$ - | \$ - | \$ - | \$79,163 |
| Debt securities at fair value | 17,446 | 45,372 | 129,029 | 55,231 | 247,078 |
| Loans | 42,839 | 85,021 | 434,798 | 718,990 | 1,281,648 |
| Receivable from members | - | - | - | 61,459 | 61,459 |
| Receivables & prepayments | 8,501 | 4,912 | 1,007 | 205 | 14,625 |
| Total Assets | \$147,949 | \$135,305 | \$564,834 | \$835,885 | \$1,683,973 |
| Liabilities | | | | | |
| Accounts payable | \$2,096 | \$14 | \$62 | \$28 | \$2,200 |
| Maintenance of value on currency holdings | - | - | - | 193 | 193 |
| Borrowings | 4,055 | 237,083 | 396,291 | 344,255 | 981,684 |
| Total Liabilities | \$6,151 | \$237,097 | \$396,353 | \$344,476 | \$984,077 |

CARIBBEAN DEVELOPMENT BANK ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE C – RISK MANAGEMENT...*continued*

Liquidity risk...*continued*

Assets held for managing liquidity risk

The Bank holds a diversified portfolio of cash and high-quality, highly-liquid securities to support payment obligations and contingent funding in a highly stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with commercial banks;
- Time deposits;
- Government bonds and other securities that are easily traded;
- Secondary sources of liquidity including a line of credit with a commercial bank.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE C – RISK MANAGEMENT...*continued*

Liquidity risk...*continued*

Derivative cash flows

The following table shows the derivative financial instruments that will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows.

| At December 31 | 2012 | | | | Total |
|--------------------------------------|----------------|--------------|-----------------|-----------------|-----------------|
| | 0 - 3 months | 3-12 months | 1-5 years | Over 5 years | |
| Derivatives: | | | | | |
| - Cross currency interest rate swaps | 3,243 | 614 | 13,144 | 60,029 | 77,030 |
| Total | \$3,243 | \$614 | \$13,144 | \$60,029 | \$77,030 |

| At December 31 | 2011 | | | | Total |
|--------------------------------------|----------------|--------------|-----------------|----------------|-----------------|
| | 0 - 3 months | 3-12 months | 1-5 years | Over 5 years | |
| Derivatives: | | | | | |
| - Cross currency interest rate swaps | \$3,382 | \$337 | \$10,677 | \$3,825 | \$18,221 |
| Total | \$3,382 | \$337 | \$10,677 | \$3,825 | \$18,221 |

Commitments, guarantees and contingent liabilities

Loan and capital commitments

The table below summarizes the amounts of the Bank's commitments, guarantees and contingent liabilities that will commit it to extend credit to its BMCs.

| At December 31 | 2012 | | Total |
|---------------------|------------------|------------------|------------------|
| | 0-12 months | 1-5 years | |
| Loan commitments | \$100,000 | \$185,424 | \$285,424 |
| Capital commitments | - | - | - |
| Total | \$100,000 | \$185,424 | \$285,424 |

| At December 31 | 2011 | | Total |
|---------------------|----------------|---------------|----------------|
| | 0-12 months | 1-5 years | |
| Loan commitments | 156,000 | 73,975 | 229,975 |
| Capital commitments | 839 | 941 | 1,780 |
| Total | 156,839 | 74,916 | 231,755 |

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE C – RISK MANAGEMENT...*continued*

Fair value of financial assets and liabilities

(a) *Fair value hierarchy*

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

Level 1 – Quoted prices in active markets for identical assets. This level includes listed equity securities and debt instruments on exchanges (for example, the New York Stock Exchange, NASDAQ).

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset either directly or indirectly. This level includes derivative contracts. The source of input parameters like the LIBOR yield curve or counterparty credit risk is Bloomberg.

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

Assets and liabilities measured at fair value:

| December 31 | 2012 | | | Total |
|---|---------|-----------|---------|-----------|
| | Level 1 | Level 2 | Level 3 | |
| Financial assets at fair value through profit or loss | | | | |
| - Debt securities | \$ - | \$400,509 | \$ - | \$400,509 |
| Financial assets designated at fair value | | | | |
| - Cross currency interest rate swaps | - | 95,312 | - | 95,312 |
| Total assets | \$ - | \$495,821 | \$ - | \$495,821 |

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE C – RISK MANAGEMENT...*continued*

Fair value of financial assets and liabilities...*continued*

| December 31 | 2011 | | | Total |
|---|---------|-----------|---------|-----------|
| | Level 1 | Level 2 | Level 3 | |
| Financial assets at fair value through profit or loss | | | | |
| - Debt securities | \$ - | \$244,242 | \$ - | \$244,242 |
| Financial assets designated at fair value | | | | |
| - Cross currency interest rate swaps | - | 127,680 | - | 127,680 |
| Total assets | \$ - | \$371,922 | \$ - | \$371,922 |

(b) *Financial instruments measured at fair value using a valuation technique*

The total amount of the change in fair value estimated using a valuation technique that was recognized in profit and loss during the year was a loss of \$31,129 (2011 – income of \$31,925).

(c) *Financial instruments not measured at fair value*

The carrying amounts and the fair value of those financial assets and liabilities not presented in the statement of financial position at their fair value are summarized below.

- (i) Due from banks
Due from banks includes cash and inter-bank placements. The estimated fair value of floating rate placements and overnight deposits is their carrying value.
- (ii) Loans
The Bank's loan portfolio comprises loans granted to, or guaranteed by, its Borrowing Member Countries. Amounts disbursed on loans are repayable in the currency or currencies disbursed by the Bank or in other freely convertible currency or currencies approved by the Bank. The amount repayable in each of these currencies shall be equal to the amount disbursed in the original currency. Loans are granted for a maximum period of twenty-two years, including a grace period, which is typically the period of project implementation. Loans are for the purpose of financing development projects and programmes and are not intended for sale. Further, management does not believe there is a comparable secondary market for the type of loans made by the Bank.

For 2012 and 2011, the estimated fair values are based on discounted cash flow models using an estimated yield curve appropriate for the remaining term to maturity.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE C – RISK MANAGEMENT...*continued*

Fair value of financial assets and liabilities...*continued*

- (iii) Non-negotiable demand notes
These are non-interest bearing demand notes with no conditions for repayment. The fair value is estimated therefore to be the carrying value.
- (iv) Receivables & prepayments
Due to the short-term nature of these assets, fair value is assumed to approximate carrying value.
- (v) Accounts payable
The estimated fair value of current liabilities with no stated maturity is the amount repayable on demand.
- (vi) Borrowings
The aggregate fair values are based on discounted cash flow models using a current yield curve appropriate for the remaining term to maturity.

The following table summarizes the carrying amounts and fair values of financial assets and liabilities presented on the Bank's statement of financial position.

| | Carrying value | | Fair value | |
|------------------------------|----------------|-----------|------------|----------|
| | 2012 | 2011 | 2012 | 2011 |
| Financial assets | | | | |
| Due from banks | \$96,401 | \$79,163 | \$96,401 | \$79,163 |
| Loans | 972,332 | 1,007,537 | 766,126 | 678,541 |
| Non-negotiable demand notes | 43,802 | 44,363 | 43,802 | 44,363 |
| Subscriptions in arrears | 11,250 | 15,975 | 11,250 | 15,975 |
| Receivables & prepayments | 10,222 | 14,625 | 10,222 | 14,625 |
| Maintenance of value | 2,692 | 1,121 | 2,692 | 1,121 |
| Financial liabilities | | | | |
| Maintenance of value | 36 | 193 | 36 | 193 |
| Borrowings | 922,206 | 857,875 | 1,050,923 | 919,233 |

Derivatives

The Bank uses derivatives in its borrowing and liability management activities to take advantage of cost-saving opportunities and to lower its funding costs and to align its interest rate profiles on its borrowings with that of its lending activities. The Bank has entered into currency swap agreements with major international banks by which proceeds of a borrowing are converted into a different currency and simultaneously a forward exchange agreement is executed providing for the future exchange of the two currencies in order to recover the currency converted. The Bank has also entered into interest rate swaps, which transform a floating rate payment obligation in a particular currency into a fixed rate payment obligation or *vice-versa*. Other financial expenses relate to expenses derived from the net swap expenses.

The determination of the fair value of financial instruments is disclosed in note B "Financial assets – Determination of fair value".

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE C – RISK MANAGEMENT...*continued*

Capital Management

CDB's objectives when managing capital, which is a broader concept than "equity" on the face of the statement of financial position, are to:

- Safeguard the Bank's ability to continue as a going concern; and
- Maintain a strong capital base to support its development activities.

The Bank's capital adequacy framework which is consistent with the guidelines developed by the Basel Committee takes into account the Bank's total equity, which is defined as paid-up capital, retained earnings and reserves less receivable from members, and the cumulative effect of IAS 39. The goals of the Bank's capital adequacy policy are to:

- (i) ensure a reliable framework and methodology to determine the appropriate levels of economic capital that the Bank should carry for prudential purposes; and
- (ii) determine from time to time the appropriate changes in the level of economic capital that the Bank must have, based on changes in the risk profile of its credit exposures.

The capital adequacy framework is supported by an income targeting policy that would enable the Bank, not only to safeguard, but also to strengthen its level of capitalisation. CDB's Board of Directors has approved a total equity (as defined) to exposure (loans and guarantees) ratio (TEER)¹ in the range of 50 to 55%.

At the end of each reporting period, an assessment is made to determine the embedded risk in the Bank's exposures to the public and private sectors and its capacity to carry this risk. The outstanding loans for each debtor are placed into the rating category of that debtor. The default rate that is associated with each rating is applied to the outstanding exposure by each obligee.

The results of this analysis based on the statement of financial position as at December 31, 2012, result in a TEER of 61.5% (2011: 54.7%), indicating that the Bank is well capitalised.

Management provides quarterly and annual reports to the Board.

Operational Risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risk can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorizations, reconciliation procedures, staff education and assessment processes such as the use of its internal audit section.

The Bank has determined that the information technology systems and the data stored therein comprise a significant risk area. As a result the Bank established a Disaster Recovery Centre based locally but located off-site, to which data is transferred daily and which enables the replication of all applications at this location within three days of a disaster occurrence. There is also established an additional back-up

¹ For the purposes of capital adequacy, Equity = Paid-in capital + Ordinary reserves + Net income + Special reserve – Net receivable from members. Exposure = loans and guarantees outstanding.

CARIBBEAN DEVELOPMENT BANK ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE C – RISK MANAGEMENT...continued

Operational Risk...continued

site in Toronto, Canada to which data is also transferred on a daily basis. This serves as a restoration facility in the event of a catastrophic local event, and based on scenario planning and disaster management plan, it is estimated that all applications and data can be recovered from this additional back-up site in approximately two weeks.

During the year the Bank approved the establishment of a centralized Risk Management unit consisting of a Chief Risk Officer and staff, which will be responsible for managing and coordinating its approach to mitigating strategic, financial operational and other risks. This unit will report to the President and will be fully functional upon completion of the development of an appropriate risk management framework designed with the assistance of international risk consultants. This is expected during the first half of the new financial year and will be supported by an enhanced internal audit function.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE D – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Bank's financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

CDB makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Accounting policies and management's judgement for certain items are especially critical for the Bank's results and financial situation due to their materiality.

Loan impairment provisions

The Bank reviews its loan portfolios on an annual basis, at minimum, to assess impairment. In determining whether an impairment loss should be recorded in profit and loss, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans based on current events.. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. For public sector loans the assessment is done on a portfolio basis, while for the private sector loans, the assessment is done on the individual loans. The Bank's method for determining the level of impairment of loans is described in Note B 'Impairment of financial assets' and further explained in Note C under credit risk.

Fair value of Debt securities

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques, for example, models. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risks, volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value financial instruments.

CARIBBEAN DEVELOPMENT BANK ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE D – CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS...*continued*

Post-employment benefit obligations

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension and other post-employment obligations.

The assumptions used in determining the net cost (income) for pensions include the discount rate. The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash flows expected to be required to settle the pension obligations. The Bank considers the interest rates of high-quality instruments that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE E – SEGMENT ANALYSIS

The Bank is a multilateral financial institution dedicated to the development of the economies of its Caribbean member countries. In management's opinion the Bank has one reportable segment since CDB does not manage its operations by allocating resources based on a determination of the contribution of the net income from individual borrowers.

The following table presents CDB's loans outstanding balances inclusive of accrued interest and net of impairment provisions, and associated interest income by countries which generated in excess of 10% in loan interest income as of and for the years ended December 31, 2012 and 2011:

| Country | Interest income | | Loans outstanding | |
|--------------------------------|-----------------|----------|-------------------|-------------|
| | 2012 | 2011 | 2012 | 2011 |
| Jamaica | \$9,189 | \$9,401 | \$238,698 | \$243,281 |
| Barbados | 5,198 | 5,158 | 120,932 | 126,478 |
| St. Vincent and the Grenadines | 3,861 | 4,139 | 101,456 | 105,471 |
| Other | 21,391 | 21,884 | 511,246 | 532,307 |
| Total | \$39,639 | \$40,582 | \$972,332 | \$1,007,537 |

NOTE F – CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following balances:

| | 2012 | 2011 |
|----------------|----------|----------|
| Due from banks | \$21,354 | \$22,187 |
| Time deposits | 75,047 | 56,976 |
| | \$96,401 | \$79,163 |

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE G – DEBT SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

A summary of the Bank's debt securities at fair value through profit or loss was as follows:

| | 2012 | | | | |
|--|------------------|----------------|----------------|----------------|------------------|
| | USD | EUR | CAD | Other | All Currencies |
| December 31 | | | | | |
| Obligations guaranteed by Governments ¹ | \$227,824 | \$5,111 | \$4,463 | \$ - | \$237,398 |
| Multilateral organizations | 138,104 | 2,833 | 4,722 | - | 145,659 |
| Time Deposits | - | - | - | 6,025 | 6,025 |
| Euro Commercial Paper | 9,995 | - | - | - | 9,995 |
| Sub-total | 375,923 | 7,944 | 9,185 | 6,025 | 399,077 |
| Accrued interest | 1,196 | 206 | 15 | 15 | 1,432 |
| Total | \$377,119 | \$8,150 | \$9,200 | \$6,040 | \$400,509 |
| | | | | | |
| | 2011 | | | | |
| | USD | EUR | CAD | Other | All Currencies |
| December 31 | | | | | |
| Obligations guaranteed by Governments | \$175,218 | \$4,052 | \$2,619 | \$1,405 | \$183,294 |
| Multilateral organizations | 38,353 | 2,769 | 6,649 | - | 47,771 |
| Time Deposits | - | - | - | 1,886 | 1,886 |
| Euro Commercial Paper | 9,972 | - | - | - | 9,972 |
| Sub-total | \$223,543 | \$6,821 | \$9,268 | \$3,291 | \$242,923 |
| Accrued interest | 1,079 | 186 | 49 | 5 | 1,319 |
| Total | \$224,622 | \$7,007 | \$9,317 | \$3,296 | \$244,242 |

¹ Freely convertible currencies in Government and Government-guaranteed obligations which are members of the G7 or EU and its agencies.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE H – LOANS OUTSTANDING

The following tables break down the Bank's main credit exposures at their carrying amounts, as categorized by Borrowing Member Countries, regional institutions and to the private sector as of December 31, 2012.

| 2012 | | | | |
|--|----------------------------|------------------|------------------|---------------------------|
| Borrowers | Loans not yet effective | Undisbursed | Outstanding | % of Loans outstanding |
| Anguilla | \$- | \$103 | \$64,744 | 6.6 |
| Antigua and Barbuda | - | 10,000 | 39,713 | 4.1 |
| Bahamas | - | 4,997 | 6,607 | 0.7 |
| Barbados | - | 100,949 | 120,066 | 12.4 |
| Belize | 5,362 | 33,223 | 71,756 | 7.4 |
| British Virgin Islands | - | 20,091 | 13,072 | 1.4 |
| Cayman Islands | - | - | 4,112 | 0.4 |
| Dominica | 3,939 | 4,635 | 21,128 | 2.2 |
| Grenada | - | 7,632 | 29,026 | 3.0 |
| Guyana | 9,200 | 3,350 | 29,757 | 3.1 |
| Jamaica | 10,000 | 29,300 | 236,403 | 24.4 |
| Montserrat | - | - | - | - |
| St. Kitts and Nevis | - | 15,030 | 54,054 | 5.5 |
| St. Lucia | - | 20,698 | 84,911 | 8.7 |
| St. Vincent and the Trinidad and Tobago | 6,522 | 9,554 | 100,531 | 10.4 |
| Turks and Caicos Islands | - | - | 25,886 | 2.7 |
| Regional | - | 1,787 | 5,730 | 0.6 |
| Private Sector | - | - | 8,315 | 0.9 |
| | - | 23,925 | 52,905 | 5.5 |
| | 35,023 | 285,274 | 968,716 | 100.0 |
| Sub-total | - | - | - | - |
| Provision for impairment | - | - | (7,584) | - |
| Accrued interest | - | - | 11,200 | - |
| | \$35,023 | \$285,274 | \$972,332 | - |
| Total – December 31 | | | | |
| | | | 2012 | |
| Current | | | \$107,644 | |
| Non-current | | | \$864,688 | |

**CARIBBEAN DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE H – LOANS OUTSTANDING...continued

| Borrowers | 2011 | | | |
|--------------------------------|-------------------------|------------------|--------------------|------------------------|
| | Loans not yet effective | Undisbursed | Outstanding | % of Loans Outstanding |
| Anguilla | \$- | \$815 | \$65,558 | 6.6 |
| Antigua and Barbuda | - | 12,170 | 40,513 | 4.0 |
| Bahamas | - | 10,058 | 3,787 | 0.5 |
| Barbados | 71,250 | 31,556 | 125,510 | 12.6 |
| Belize | - | 37,465 | 73,238 | 7.3 |
| British Virgin Islands | 15,672 | 4,434 | 15,193 | 1.5 |
| Cayman Islands | - | - | 5,012 | 0.5 |
| Dominica | 2,087 | 4,759 | 19,699 | 2.0 |
| Grenada | 2,032 | 7,142 | 30,071 | 3.0 |
| Guyana | - | 5,945 | 29,072 | 2.9 |
| Jamaica | - | 37,617 | 240,898 | 24.0 |
| Montserrat | - | - | - | - |
| St. Kitts and Nevis | - | 15,973 | 58,018 | 5.8 |
| St. Lucia | 4,000 | 17,053 | 92,569 | 9.2 |
| St. Vincent and the Grenadines | 3,072 | 7,719 | 104,505 | 10.4 |
| Trinidad and Tobago | - | - | 32,168 | 3.2 |
| Turks and Caicos Islands | - | 1,786 | 6,292 | 0.6 |
| Regional | - | 969 | 7,416 | 0.7 |
| Private Sector | - | 34,514 | 52,440 | 5.2 |
| Sub-total | 98,113 | 229,975 | 1,001,959 | 100 |
| Provision for impairment | - | - | (5,046) | |
| Accrued interest | - | - | 10,624 | |
| Total – December 31 | \$98,113 | \$229,975 | \$1,007,537 | |
| | | | 2011 | |
| Current | | | \$127,860 | |
| Non-Current | | | \$879,677 | |

**CARIBBEAN DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE H – LOANS OUTSTANDING ... *continued*

An analysis of the composition of outstanding loans was as follows:

| | 2012 | | | | | | | |
|----------------------------|--------------------------------|------------------------------------|-----------------|--------------------|-------------------|----------------------------|--------------------------------|---------------------------|
| | Loans out- standing 2011 | Net Interest income/ receipt | Disbursements | Sub-Total | Repayments | Provision for Losses | Loans out- standing 2012 | % of loans outstanding |
| Currencies receivable | | | | | | | | |
| United States dollars | \$1,001,959 | \$ - | \$49,481 | \$1,051,440 | \$(82,724) | \$ - | \$968,716 | 100.0 |
| Sub-total | 1,001,959 | - | 49,481 | 1,051,440 | (82,724) | - | 968,716 | 100.0 |
| Provision for impairment | (5,046) | - | - | (5,046) | - | (2,538) | (7,584) | |
| Accrued interest | 10,624 | 576 | - | 11,200 | - | - | 11,200 | |
| Total – December 31 | \$1,007,537 | \$(576) | \$49,481 | \$1,057,594 | \$(82,724) | \$(2,538) | \$972,332 | |

| | 2011 | | | | | | | |
|----------------------------|--------------------------------|------------------------------------|-----------------|--------------------|-------------------|----------------------------|--------------------------------|---------------------------|
| | Loans out- standing 2009 | Net Interest income/ receipt | Disbursements | Sub-Total | Repayments | Provision for Losses | Loans out- standing 2010 | % of loans outstanding |
| Currencies receivable | | | | | | | | |
| United States dollars | \$984,400 | \$ - | \$94,867 | \$1,079,267 | \$(77,308) | \$ - | \$1,001,959 | 100.0 |
| Sub-total | 984,400 | - | 94,867 | 1,079,267 | (77,308) | - | 1,001,959 | 100.0 |
| Provision for impairment | (2,046) | - | - | (2,046) | - | (3,000) | (5,046) | |
| Accrued interest | 11,194 | (570) | - | 10,624 | - | - | 10,624 | |
| Total – December 31 | \$993,548 | \$(570) | \$94,867 | \$1,087,845 | \$(77,308) | \$(3,000) | \$1,007,537 | |

Reconciliation of allowance account for impairment on loans

| | 2012 | 2011 |
|----------------------------------|---------|---------|
| Balance at January 1 | \$5,046 | \$2,046 |
| Increase in impairment allowance | 2,538 | 3,000 |
| Balance at December 31 | \$7,584 | \$5,046 |

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE H – LOANS OUTSTANDING ... *continued*

Portfolio provisions for the unidentified impairment of sovereign loans at December 31, 2012 and 2011, amounted to \$Nil (2011 - \$Nil). Due to the Bank's preferred creditor status afforded by its members a downgrade or upgrade by one risk-rating category would not have had a significant impact on the level of sovereign portfolio provision.

NOTE I – DERIVATIVE FINANCIAL INSTRUMENTS

The fair values of derivative financial instruments held at December 31, 2012 and 2011, were as follows:

| | Notional Amount | 2012 | 2011 |
|------------------------------------|--------------------|-------------|-----------|
| | | Fair values | |
| | | Assets | Assets |
| Cross currency interest rate swaps | \$160,000 | \$95,312 | \$127,680 |

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates or a combination of all these (e.g. cross-currency interest rate swaps). The Bank's credit risk represents the potential cost to replace the swap contracts if the counterparties fail to fulfill their obligation.

The Bank has two dual currency interest rate swaps. These swaps were derived by changing underlying fixed rate borrowings in Japanese Yen to floating rate borrowings in United States dollars. The two fixed rate Japanese Yen notes which mature in 2022 and 2030 carry an interest rate of 2.75% and 4.35%, respectively. The principal amounts due on maturity are in Japanese Yen, while the interest payments are in United States dollars.

NOTE J – NON-NEGOTIABLE DEMAND NOTES

The Charter permits the Bank to accept from a member non-negotiable, non-interest-bearing demand notes in place of part of the member's subscription to the paid-up capital which shall be payable in the member's currency and maintenance of value in respect of such part, provided that such currency is not required for the conduct of the operations of the Bank. A member that has issued such demand notes may, at the request of the Bank, convert any of them into interest-bearing notes or into cash to be invested in government securities of that member. For a detailed listing refer to Note R.

All of the non-negotiable demand notes are considered non-current as there is no expectation that they will be called within the next twelve months.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE K – MAINTENANCE OF VALUE ON CURRENCY HOLDINGS

Member countries, whose currencies do not have a fixed relationship with the US dollar but have made adjustments to the exchange rate, are obliged to maintain the value of their currencies in respect of capital contributions if such currencies depreciate. The policy provides for maintenance of value to be payable by the Bank whenever the value of a member's currency has, in the opinion of the Bank, appreciated to a significant extent.

As at December 31, 2012 the amounts of \$2,692 (2011 - \$1,121) were due by certain members and \$36 (2011 - \$193) was due by the Bank.

NOTE L – SUBSCRIPTIONS IN ARREARS

Member countries are required to meet their obligations for paid in shares over a period of years determined in advance. The amount of \$11,250 (2011 – \$15,975) represents amounts that are due and not yet paid by certain members.

NOTE M – RECEIVABLES & PREPAYMENTS

| | 2012 | 2011 |
|-----------------------------------|-------------|-------------|
| Inter-fund receivables – Note V | \$ - | \$8,235 |
| Staff loans and other receivables | 802 | 852 |
| VAT receivable | 776 | 552 |
| Institutional receivables | 8,558 | 4,971 |
| Prepayments | 86 | - |
| Other | - | 15 |
| | <hr/> | <hr/> |
| | \$10,222 | \$14,625 |
| Current | \$4,798 | \$13,413 |
| Non-current | \$5,424 | \$1,212 |

During the year, no provision (2011: nil) was required as no receivables were considered to be impaired.

CARIBBEAN DEVELOPMENT BANK ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE N – PROPERTY AND EQUIPMENT

Under the Headquarters' Agreement with the host country, the Bank's owned buildings in the host country are intended to be used for the purposes of the Bank.

The carrying values of property and equipment were as follows:

| | 2012 | | | | | |
|-------------------------------------|-------------------------|---|--------------|-------------------------------|-------------------|----------------|
| | Projects in Progress | Land, Buildings and Ancillary Works | Computers | Furniture and Equipment | Motor Vehicles | Total |
| At January 1 | | | | | | |
| Cost | \$1,639 | \$11,112 | \$7,280 | \$4,491 | \$325 | \$24,847 |
| Accumulated depreciation | - | (6,467) | (6,303) | (3,458) | (200) | (16,428) |
| Closing net book amount | \$1,639 | \$4,645 | \$977 | \$1,033 | \$152 | \$8,419 |
| Year ended December 31 | | | | | | |
| Opening net book amount | \$1,639 | \$4,645 | \$977 | \$1,033 | \$125 | \$8,419 |
| Additions | 621 | - | 138 | 506 | - | 1,265 |
| Transfers from projects in progress | (138) | - | 138 | - | - | - |
| Disposals – Cost | - | - | (44) | - | - | (44) |
| Disposals-accumulated depreciation | - | - | 44 | - | - | 44 |
| Depreciation expense | - | (262) | (719) | (378) | (39) | (1,398) |
| Closing net book amount | \$2,122 | \$4,383 | \$534 | \$1,161 | \$86 | \$8,286 |
| At December 31 | | | | | | |
| Cost | \$2,122 | \$11,112 | \$7,512 | \$4,997 | \$325 | \$26,068 |
| Accumulated depreciation | - | (6,729) | (6,978) | (3,836) | (239) | (17,782) |
| Closing net book amount | \$2,122 | \$4,383 | \$534 | \$1,161 | \$86 | \$8,286 |

**CARIBBEAN DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE N- PROPERTY AND EQUIPMENT...*continued*

| | 2011 | | | | | |
|------------------------------------|-------------------------|---|---------------|-------------------------------|-------------------|----------------|
| | Projects in Progress | Land, Buildings and Ancillary Works | Computers | Furniture and Equipment | Motor Vehicles | Total |
| At January 1 | | | | | | |
| Cost | \$926 | \$11,112 | \$7,171 | \$3,939 | \$203 | \$23,351 |
| Accumulated depreciation | - | (6,197) | (5,502) | (3,196) | (151) | (15,046) |
| Closing net book amount | \$926 | \$4,915 | \$1,669 | \$ 743 | \$ 52 | \$8,305 |
| Year ended December 31 | | | | | | |
| Opening net book amount | 926 | 4,915 | 1,669 | 743 | 52 | 8,305 |
| Additions | 713 | - | 140 | 592 | 122 | 1,567 |
| Disposals | - | - | (31) | (40) | - | (71) |
| Disposals-accumulated depreciation | - | - | 31 | 40 | - | 71 |
| Depreciation expense | - | (270) | (832) | (302) | (49) | (1,453) |
| Closing net book amount | \$1,639 | \$4,645 | \$ 977 | \$1,033 | \$125 | \$8,419 |
| At December 31 | | | | | | |
| Cost | 1,639 | 11,112 | 7,280 | 4,491 | 325 | 24,847 |
| Accumulated depreciation | - | (6,467) | (6,303) | (3,458) | (200) | (16,428) |
| Closing net book amount | \$1,639 | \$4,645 | \$ 977 | \$1,033 | \$125 | \$8,419 |

CARIBBEAN DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE O – ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | 2012 | 2011 |
|---------------------|----------------|----------------|
| Accounts payable | \$645 | \$90 |
| Accrued liabilities | 3,971 | 2,110 |
| Total | \$4,616 | \$2,200 |
| Current portion | \$4,529 | \$2,110 |
| Non-current portion | \$87 | \$90 |

NOTE P – SUBSCRIPTIONS IN ADVANCE

Member countries are required to meet their obligations for paid-in shares over a period of years determined in advance. The amount of \$4,138 (2011 – \$5,172) represents amounts paid in advance of the due dates.

NOTE Q – DEFERRED INCOME

The amount of \$875 (2011 - \$875) represents the value of freehold land donated to the Bank by the host country.

NOTE R – POST-EMPLOYMENT OBLIGATIONS (SHORTFALL)

The Bank operates a defined benefit new pension plan and a hybrid old pension scheme based on the employee pensionable remuneration and length of service. While administrative expenses are allocated to the Special Funds Resources, the post-employment benefit obligations reflected are those of the OCR as the OCR has no recourse to the Special Funds Resources with respect to this obligation.

| | 2012 | 2011 |
|------------------------------------|----------------|----------------|
| Defined Benefit Pension Liability | \$1,400 | \$318 |
| Hybrid Pension Liability | 105 | 19 |
| Post-Retirement Medical Obligation | 2,459 | 2,261 |
| | \$3,964 | \$2,598 |

**CARIBBEAN DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE R – POST-EMPLOYMENT OBLIGATIONS...continued

Defined Benefit Pension Plan

The amounts recognized in the statement of financial position are determined as follows:

| | Pensions | |
|-------------------------------------|-----------------|--------------|
| | 2012 | 2011 |
| Present value of funded obligations | \$45,888 | \$39,189 |
| Fair value of plan assets | (36,250) | (32,017) |
| | 9,638 | 7,172 |
| Unrecognized actuarial losses | (8,238) | (6,854) |
| Liability | <u>\$1,400</u> | <u>\$318</u> |

The amounts recognized in the statement of comprehensive income are as follows:

| | Pensions | |
|----------------------------------|-----------------|----------------|
| | 2012 | 2011 |
| Current service cost | \$2,874 | \$2,850 |
| Interest cost | 1,928 | 1,876 |
| Expected return on plan assets | (1,801) | (1,888) |
| Amortization of actuarial cost | 278 | 86 |
| | <u>\$3,279</u> | <u>\$2,924</u> |
| Actual return on the plan assets | <u>\$2,723</u> | <u>\$(403)</u> |

Movement in the liability recognized in the statement of financial position:

| | Pensions | |
|--------------------|-----------------|--------------|
| | 2012 | 2011 |
| January 1 | \$318 | \$(258) |
| Net pension cost | 3,279 | 2,924 |
| Contributions paid | (2,197) | (2,348) |
| December 31 | <u>\$1,400</u> | <u>\$318</u> |

CARIBBEAN DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE R – POST-EMPLOYMENT OBLIGATIONS...*continued*

Defined Benefit Pension Plan...*continued*

Movement in the defined benefit obligation over the year is as follows:

| | Pensions | |
|--------------------------|-----------------|-----------------|
| | 2012 | 2011 |
| January 1 | \$39,189 | \$34,652 |
| Current service cost | 2,874 | 2,850 |
| Interest cost | 1,928 | 1,876 |
| Employees' contributions | 591 | 630 |
| Actuarial (gain)/loss | 2,594 | 279 |
| Benefits paid | (1,288) | (1,098) |
| December 31 | <u>\$45,888</u> | <u>\$39,189</u> |

Movement in the fair value of plan assets over the year is as follows:

| | Pensions | |
|--------------------------------|-----------------|-----------------|
| | 2012 | 2011 |
| January 1 | \$32,017 | \$30,540 |
| Expected return on plan assets | 1,802 | 1,888 |
| Actuarial gain/(loss) | 931 | (2,291) |
| Employer's contributions | 2,197 | 2,348 |
| Employees' contributions | 591 | 630 |
| Benefits paid | (1,288) | (1,098) |
| December 31 | <u>\$36,250</u> | <u>\$32,017</u> |

The principal actuarial assumptions used for accounting purposes are:

| | Pensions | |
|--------------------------------|-----------------|-------------|
| | 2012 | 2011 |
| | (%) | (%) |
| Discount rate | 4.25 | 5.0 |
| Expected return on plan assets | 4.75 | 5.5 |
| Future salary increases | 3.75 | 4.5 |
| Future pension increases | 2.25 | 2.5 |

**CARIBBEAN DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE R – POST-EMPLOYMENT OBLIGATIONS...continued

Defined Benefit Pension Plan...continued

Mortality rate

Assumptions regarding future mortality experience are set based on actuarial advice, based on published statistics and experience.

The average life expectancy in years of a pensioner retiring at age 62 on the reporting date is as follows:

| | <u>2012</u> | <u>2011</u> |
|--------|-------------|-------------|
| Male | 19.3 | 19.3 |
| Female | 23.3 | 23.3 |

| Asset allocation as at December 31 – Defined Benefit Pension Plan | <u>2012</u> | <u>2011</u> |
|---|-------------|-------------|
| Equity securities | 51% | 51% |
| Debt securities | 42% | 42% |
| Other | 7% | 7% |
| Total | <u>100%</u> | <u>100%</u> |

CDB's contribution to the Defined Benefit Pension Plan in 2013 is estimated at \$2,332 (2012: \$2,248).

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the reporting date, while equity returns reflect long-term real rates of return experienced in respective markets.

As at December 31

| | <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> |
|---|----------------|----------------|----------------|----------------|----------------|
| Present value of defined benefit obligation | \$45,888 | \$39,189 | \$34,652 | \$29,239 | \$24,732 |
| Fair value of plan assets | (36,250) | (32,017) | (30,540) | (25,673) | (20,408) |
| Deficit | <u>\$9,638</u> | <u>\$7,172</u> | <u>\$4,112</u> | <u>\$3,566</u> | <u>\$4,324</u> |
| Experience adjustments on plan liabilities | \$89 | \$1,739 | \$433 | \$ 50 | \$ (109) |
| Experience adjustments on plan assets | \$931 | \$(2,291) | \$1,074 | \$1,383 | \$(6,324) |

**CARIBBEAN DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE R – POST-EMPLOYMENT OBLIGATIONS...*continued*

Hybrid Pension Scheme

The amounts recognized in the statement of financial position are determined as follows:

| | Pensions | |
|-------------------------------------|-----------------|-------------|
| | 2012 | 2011 |
| Present value of funded obligations | \$27,302 | \$23,698 |
| Fair value of plan assets | (22,636) | (22,563) |
| | 4,666 | 1,135 |
| Unrecognized actuarial losses | (4,561) | (1,116) |
| Liability | \$105 | \$19 |

The amounts recognized in the statement of comprehensive income are as follows:

| | Pensions | |
|----------------------------------|-----------------|-------------|
| | 2012 | 2011 |
| Current service cost | \$234 | \$214 |
| Interest cost | 1,156 | 1,237 |
| Expected return on plan assets | (1,112) | (1,248) |
| | \$278 | \$203 |
| Actual return on the plan assets | \$743 | \$345 |

CARIBBEAN DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE R – POST-EMPLOYMENT OBLIGATIONS...continued

Hybrid Pension Scheme...continued

Movement in the liability recognized in the statement of financial position:

| | Pensions | |
|----------------------|-----------------|-------------|
| | 2012 | 2011 |
| January 1 | \$19 | \$19 |
| Pension/benefit cost | 278 | 203 |
| Contributions paid | (192) | (203) |
| December 31 | <u>\$105</u> | <u>\$19</u> |

Movement in the defined benefit obligation over the year is as follows:

| | Pensions | |
|--------------------------|-----------------|-----------------|
| | 2012 | 2011 |
| January 1 | \$23,698 | \$23,150 |
| Current service cost | 234 | 214 |
| Interest cost | 1,156 | 1,237 |
| Employees' contributions | 302 | 202 |
| Actuarial (gain)/loss | 3,076 | 232 |
| Benefits paid | (1,164) | (1,337) |
| December 31 | <u>\$27,302</u> | <u>\$23,698</u> |

Movement in the fair value of plan assets over the year is as follows:

| | Pensions | |
|--------------------------------|-----------------|-----------------|
| | 2012 | 2011 |
| January 1 | \$22,563 | \$23,150 |
| Expected return on plan assets | 1,112 | 1,248 |
| Actuarial (gain)/loss | (369) | (903) |
| Employer's contributions | 192 | 203 |
| Employees' contributions | 302 | 202 |
| Benefits paid | (1,164) | (1,337) |
| December 31 | <u>\$22,636</u> | <u>\$22,563</u> |

**CARIBBEAN DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE R – POST-EMPLOYMENT OBLIGATIONS...*continued*

Hybrid Pension Scheme...*continued*

The principal actuarial assumptions used for accounting purposes are:

| | Pensions | |
|--------------------------------|-----------------|--------------|
| | 2012 | 2011 |
| | (%) | (%) |
| Discount rate | 4.25 | 5.0 |
| Expected return on plan assets | 4.25 | 5.0 |
| Future salary increases | 3.75 | 4.5 |

Mortality rate

Assumptions regarding future mortality experience are set based on actuarial advice, based on published statistics and experience.

The average life expectancy in years of a pensioner retiring at age 62 on the reporting date is as follows:

| | 2012 | 2011 |
|--------|-------------|-------------|
| Male | 19.3 | 19.3 |
| Female | 23.3 | 23.3 |

| Asset allocation as at December 31 – Pension Scheme | 2012 | 2011 |
|---|-------------|-------------|
| Debt securities | 96% | 98% |
| Other | 4% | 2% |
| Total | 100% | 100% |

CDB's contribution to the hybrid pension scheme in 2013 is estimated at \$195 (2012: \$174).

CARIBBEAN DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE R – POST-EMPLOYMENT OBLIGATIONS...*continued*

Hybrid Pension Scheme...*continued*

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the reporting date, while equity returns reflect long-term real rates of return experienced in respective markets.

As at December 31

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|----------|----------|----------|----------|----------|
| Present value of defined benefit obligation | \$27,302 | \$23,698 | \$23,150 | \$22,751 | \$22,978 |
| Fair value of plan assets | (22,636) | (22,563) | (23,150) | (22,751) | (22,978) |
| Deficit | \$4,666 | \$1,135 | \$ - | \$ - | \$ - |
| Experience adjustments on plan liabilities | \$160 | \$ 497 | \$719 | \$ 488 | \$(131) |
| Experience adjustments on plan assets | \$(369) | \$(903) | \$(719) | \$(488) | \$ 131 |

Post-Retirement Medical Plan

The amounts recognized in the statement of financial position are determined as follows:

| | Post-employment medical obligation | |
|-------------------------------------|---|---------|
| | 2012 | 2011 |
| Present value of funded obligations | \$2,452 | \$2,038 |
| Unrecognized actuarial gains | 7 | 223 |
| Liability | \$2,459 | \$2,261 |

The amounts recognized in the statement of comprehensive income are as follows:

| | Post-employment medical obligation | |
|----------------------|---|-------|
| | 2012 | 2011 |
| Current service cost | \$92 | \$87 |
| Interest cost | 156 | 147 |
| Amortised net gains | (2) | - |
| | \$246 | \$234 |

**CARIBBEAN DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE R – POST EMPLOYMENT OBLIGATIONS...*continued*

Post-Retirement Medical Plan...*continued*

Movement in the liability recognized in the statement of financial position:

| | Post-employment medical obligation | |
|--------------------|---|----------------|
| | 2012 | 2011 |
| January 1 | \$2,261 | \$2,071 |
| Net cost | 246 | 234 |
| Contributions paid | (48) | (44) |
| December 31 | <u>\$2,459</u> | <u>\$2,261</u> |

Movement in the defined benefit obligation over the year is as follows:

| | Post-employment medical obligation | |
|--------------------------|---|----------------|
| | 2012 | 2011 |
| January 1 | \$2,038 | \$1,916 |
| Current service cost | 92 | 87 |
| Interest cost | 156 | 147 |
| Employees' contributions | - | - |
| Experience (gain)/loss | 214 | (68) |
| Benefits paid | (48) | (44) |
| December 31 | <u>\$2,452</u> | <u>\$2,038</u> |

The principal actuarial assumptions used for accounting purposes are:

| | Post-employment medical obligation | |
|----------------------------|---|-------------|
| | 2012 | 2011 |
| | % | % |
| Discount rate | 7.50 | 7.75 |
| Annual increase in benefit | 7.00 | 6.25 |

**CARIBBEAN DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE R – POST-EMPLOYMENT OBLIGATIONS...*continued*

Post-Retirement Medical Plan...*continued*

| | Post-employment medical obligation | | | | | | |
|--|---|-----------------------|-----------|-----------|-----------|-----------|-----------|
| | 1 % point increase | 1 % point decrease | 2012 | 2011 | 2010 | 2009 | 2008 |
| Effect on total service and interest cost components | \$ 48 | \$ (38) | | | | | |
| Effect on post-retirement medical obligation | \$421 | \$(334) | | | | | |
| As at December 31 | | | | | | | |
| Present value of defined benefit obligation | | | \$(2,452) | \$(2,038) | \$(1,916) | \$(1,933) | \$(1,835) |
| Deficit | | | \$(2,452) | \$(2,038) | \$(1,916) | \$(1,933) | \$(1,835) |
| Experience adjustments on plan liabilities | | | \$115 | \$67 | \$221 | \$102 | \$125 |

CDB's contribution to the post-retirement medical plan in 2013 is estimated at \$248 (2012: \$290).

NOTE S – BORROWINGS

It is the Bank's operating policy to limit borrowing and guarantees chargeable to the Bank's Ordinary Capital Resources to 100 percent of the callable capital of its investment grade non-borrowing members plus the paid in capital and retained earnings less receivables from members (cash reserves). At December 31, 2012, total borrowings amounted to \$ 920,246 (2011: \$857,875). Also at December 31, 2012, the ratio of total outstanding borrowings to the borrowing limit of \$1,101,645 (2011:\$1,058,251) was 89.7% (2011: 81.1%).

CARIBBEAN DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE S – BORROWINGS...continued

A summary of the borrowings was as follows:

| | 2012 | | | | | | |
|---------------------------------|--------------------------------|-------------------------|--------------------|-----------------------------|-------------------|------------------|-----------|
| | Original amounts ^{1/} | Translation adjustments | Repayments to date | Currency swap ^{2/} | Undrawn | Outstanding | Due dates |
| Short term Borrowing | | | | | | | |
| Floating Rate Note – US\$ | \$20,000 | \$ - | \$ - | \$ - | \$ - | \$20,000 | 2013 |
| | 20,000 | - | - | - | - | 20,000 | |
| CDB Market Borrowings | | | | | | | |
| 4.35% Notes – Yen | 60,000 | 15,148 | - | - | - | 75,147 | 2030 |
| 2.75% Notes – Yen | 100,000 | 36,160 | - | 8,937 | - | 145,097 | 2022 |
| 1.12% Two Year Bonds – US\$ | 75,000 | - | (75,000) | - | - | - | 2012 |
| One Year Discount Note – US\$ | 9,925 | - | (9,925) | - | - | - | 2012 |
| Floating Rate Note – US\$ | 175,000 | - | - | - | - | 175,000 | 2013 |
| Floating Rate Note – US\$ | 149,919 | - | - | - | - | 149,919 | 2014 |
| Floating Rate Note – US\$ | 120,000 | - | (120,000) | - | - | - | 2012 |
| 4.375% Bonds – US\$ | 298,040 | - | - | - | - | 298,040 | 2027 |
| | 987,884 | 51,307 | (204,925) | 8,937 | - | 843,203 | |
| European Investment Bank | | | | | | | |
| Global Loan 11I - US\$ | 51,157 | - | (6,520) | - | - | 44,637 | 2023 |
| Climate Action Credit – US\$ | 65,320 | - | - | - | (65,320) | - | |
| | 116,477 | - | (6,520) | - | (65,320) | 44,637 | |
| Inter-American Development Bank | | | | | | | |
| Loan 926/OC-RG-US\$ | 22,491 | - | (13,033) | - | - | 9,458 | 2021 |
| Sub-total | 1,146,852 | 51,307 | (224,478) | 8,937 | (65,320) | 917,298 | |
| Accrued interest ^{3/} | 2,948 | - | - | - | - | 2,948 | |
| Total – December 31 | \$1,149,800 | \$51,307 | \$(224,478) | \$8,937 | \$(65,320) | \$920,246 | |

^{1/} Net of cancellations and borrowings fully paid

^{2/} Unwinding of fair value hedge

^{3/} Relates to amounts withdrawn and outstanding

CARIBBEAN DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE S – BORROWINGS...continued

| | 2011 | | | | | | |
|---------------------------------|--------------------------------|-------------------------|--------------------|-----------------------------|-----------------|------------------|-----------|
| | Original amounts ^{1/} | Translation adjustments | Repayments to date | Currency swap ^{2/} | Undrawn | Outstanding | Due dates |
| Short term Borrowing | | | | | | | |
| Floating Rate Note – US\$ | \$20,000 | \$- | \$(20,000) | \$ - | \$ - | \$ - | 2011 |
| Floating Rate Note – US\$ | 20,000 | - | - | - | - | 20,000 | 2012 |
| | 40,000 | - | (20,000) | - | - | 20,000 | |
| CDB Market Borrowings | | | | | | | |
| 4.35% Notes – Yen | 60,000 | 23,654 | - | - | - | 83,654 | 2030 |
| 2.75% Notes – Yen | 100,000 | 51,324 | - | 10,196 | - | 161,520 | 2022 |
| 1.12% Two Year Bonds – US\$ | 75,000 | - | - | - | - | 75,000 | 2012 |
| One Year Discount Note – US\$ | 9,911 | - | (9,911) | - | - | - | 2011 |
| One Year Discount Note – US\$ | 9,925 | - | - | - | - | 9,925 | 2012 |
| Floating Rate Note – US\$ | 60,000 | - | (60,000) | - | - | - | 2013 |
| Floating Rate Note – US\$ | 175,000 | - | - | - | - | 175,000 | 2013 |
| Floating Rate Note – US\$ | 149,869 | - | - | - | - | 149,869 | 2014 |
| Floating Rate Note – US\$ | 119,817 | - | - | - | - | 119,817 | 2012 |
| | 759,522 | 74,978 | (69,911) | 10,196 | - | 774,785 | |
| European Investment Bank | | | | | | | |
| Global Loan 11 – A – US\$ | 13,034 | - | (13,034) | - | - | - | 2011 |
| Global Loan 11I - US\$ | 51,157 | - | - | - | - | 51,157 | 2023 |
| Climate Action Credit | 65,320 | - | - | - | (65,320) | - | |
| | 129,511 | - | (13,034) | - | (65,320) | 51,157 | |
| Inter-American Development Bank | | | | | | | |
| Loan 926/OC-RG-US\$ | 19,347 | - | (8,776) | - | - | 10,571 | 2021 |
| Sub-total | 948,380 | 74,978 | (111,721) | 10,196 | (65,320) | 856,513 | |
| Accrued interest ³ | 1,362 | - | - | - | - | 1,362 | |
| Total – December 31 | \$949,742 | \$74,978 | \$(111,721) | \$10,196 | (65,320) | \$857,875 | |

1/ Net of cancellations and borrowings fully paid.

2/ Unwinding of fair value hedge.

3/ Relates to amounts withdrawn and outstanding

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE S – BORROWINGS...continued

Currencies repayable on outstanding borrowings were as follows:

2012

| Currencies Repayable | Outstanding at December 2011 | Translation Adjustment | Net Interest expense/paid | Draw-downs | Currency swap amortisation ^{1/} | Repayments | Outstanding at December 2012 |
|-------------------------------|------------------------------|------------------------|---------------------------|------------------|--|--------------------|------------------------------|
| United States dollars | \$612,266 | \$ - | \$ - | \$338,630 | \$ - | \$(252,582) | \$698,314 |
| Japanese yen | 244,247 | (24,003) | - | - | (1,260) | - | 218,984 |
| Sub-total | 856,513 | (24,003) | - | 338,630 | (1,260) | (252,582) | 917,298 |
| Accrued interest ² | 1,362 | - | 1,586 | - | - | - | 2,948 |
| Total – December 31 | \$857,875 | \$(24,003) | \$1,586 | \$338,630 | \$(1,260) | \$(252,582) | \$920,246 |

2011

| Currencies Repayable | Outstanding at December 2010 | Translation Adjustment | Net Interest expense/paid | Draw-downs | Currency swap amortisation | Repayments | Outstanding at December 2011 |
|-------------------------------|------------------------------|------------------------|---------------------------|------------------|----------------------------|-------------------|------------------------------|
| United States dollars | \$419,699 | \$ - | \$ - | \$225,216 | \$ - | \$(32,649) | \$612,266 |
| Japanese yen | 232,485 | 12,689 | - | - | (927) | - | 244,247 |
| Sub-total | 652,184 | 12,689 | - | 225,216 | (927) | (32,649) | 856,513 |
| Accrued interest ² | 1,056 | - | 306 | - | - | - | 1,362 |
| Total – December 31 | \$653,240 | \$12,689 | \$306 | \$225,216 | \$(927) | \$(32,649) | \$857,875 |

The current and non-current portions of borrowings as at December 31 were as follows:

| | 2012 | 2011 |
|--------------|------------------|------------------|
| Current | \$204,925 | \$232,375 |
| Non-current | 715,321 | 625,500 |
| Total | \$920,246 | \$857,875 |

^{1/}Unwinding of fair value hedge

^{2/}Relates to amounts withdrawn and outstanding

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE S -

On December 12, 2012 Standard & Poor's Rating Services lowered the Bank's long term foreign currency issuer rating to 'AA' from 'AA+' with a negative outlook. The Bank's short term foreign currency rating was affirmed as 'A-1+'. This downgrade had no material impact on current operations, nor did it have any impact on debt covenants.

NOTE T – EQUITY

Equity is comprised of capital, retained earnings and reserves. These are further detailed as follows:

Capital

At the fortieth meeting of the Board of Governors in May 2010 in the Bahamas, a general capital increase of 150% was approved. The Bank's capital as at December 31 was as follows:

| | <u>2012</u> | <u>2011</u> |
|--|--------------------|--------------------|
| Capital stock | | |
| Authorized capital – 312,971 (2011: 312,971) shares | | |
| Subscribed capital – 247,455 (2011: 239,463) shares | \$1,549,012 | \$1,501,892 |
| Less callable capital – 193,125 (2011: 187,032) shares | <u>(1,207,638)</u> | <u>(1,170,887)</u> |
| Paid-up capital – 54,330 (2011: 52,611) shares | <u>\$341,374</u> | <u>\$331,005</u> |

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE T – EQUITY...continued

Capital...continued

The subscriptions by member countries and their voting power at December 31, were as follows:

| Member | No. of Shares | % of Total | Total subscribed capital | Callable capital | Paid-up capital | Subscriptions Matured | Voting Power | | Receivable from members. Non-negotiable Demand Notes |
|----------------------------------|----------------|--------------|--------------------------|------------------|-----------------|-----------------------|----------------|------------------|--|
| | | | | | | | No. of votes | % of total votes | |
| Regional States and Territories: | | | | | | | | | |
| Jamaica | 48,354 | 19.54 | \$291,659 | \$227,614 | \$64,045 | \$38,378 | 48,504 | 19.34 | \$13,243 |
| Trinidad and Tobago | 48,354 | 19.54 | 291,659 | 227,614 | 64,045 | 38,378 | 48,504 | 19.34 | 10,888 |
| Bahamas | 14,258 | 5.76 | 86,001 | 67,115 | 18,886 | 11,317 | 14,408 | 5.75 | 1,612 |
| Guyana | 10,417 | 4.20 | 62,833 | 49,038 | 13,795 | 8,265 | 10,567 | 4.21 | 3,205 |
| Colombia | 7,795 | 3.15 | 47,017 | 36,691 | 10,326 | 6,188 | 7,945 | 3.17 | 627 |
| Mexico | 3,118 | 1.26 | 18,807 | 14,687 | 4,120 | 4,120 | 3,268 | 1.30 | - |
| Venezuela | 3,118 | 1.26 | 18,807 | 14,687 | 4,120 | 4,120 | 3,268 | 1.30 | 3,204 |
| Barbados | 9,074 | 3.67 | 54,732 | 42,717 | 12,015 | 7,202 | 9,224 | 3.68 | 1,070 |
| Belize | 2,148 | 0.87 | 12,956 | 10,109 | 2,847 | 1,705 | 2,298 | 0.92 | - |
| Dominica | 2,148 | 0.87 | 12,956 | 10,109 | 2,847 | 1,705 | 2,298 | 0.92 | 286 |
| Grenada | 736 | 0.30 | 4,439 | 3,468 | 971 | 971 | 886 | 0.35 | 213 |
| St. Lucia | 2,148 | 0.87 | 12,956 | 10,109 | 2,847 | 1,705 | 2,298 | 0.92 | 360 |
| St. Vincent and the Grenadines | 2,148 | 0.87 | 12,956 | 10,109 | 2,847 | 1,705 | 2,298 | 0.92 | 97 |
| Antigua and Barbuda | 859 | 0.35 | 5,181 | 4,047 | 1,134 | 1,134 | 1,009 | 0.40 | 296 |
| St. Kitts and Nevis | 859 | 0.35 | 5,181 | 4,047 | 1,134 | 1,134 | 1,009 | 0.40 | 255 |
| Anguilla /1 | 455 | 0.18 | 2,744 | 2,141 | 603 | 362 | | | 14 |
| Montserrat /1 | 213 | 0.09 | 1,285 | 1,001 | 284 | 283 | | | - |
| British Virgin Islands /1 | 213 | 0.09 | 1,285 | 1,001 | 284 | 283 | 1,777 | 0.71 | - |
| Cayman Islands /1 | 213 | 0.09 | 1,285 | 1,001 | 284 | 283 | | | 8 |
| Turks and Caicos Islands /1 | 533 | 0.22 | 3,215 | 2,509 | 706 | 424 | | | - |
| Haiti | 875 | 0.35 | 5,278 | 4,120 | 1,158 | 1,158 | 1,025 | 0.41 | - |
| | <u>158,036</u> | <u>63.85</u> | <u>953,232</u> | <u>743,934</u> | <u>209,298</u> | <u>130,820</u> | <u>160,586</u> | <u>64.04</u> | <u>35,378</u> |

^{1/} In accordance with Article 3 of the Charter and Board of Governors Resolution No. 4/81, these territories are considered as a single member of the Bank for the purpose of Articles 26 and 32 of the Charter

NOTE T – EQUITY...continued

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

Capital...continued

| Member | No. of Shares | % of Total | Total subscribed capital | Callable capital | Paid-up capital | Subscriptions Matured | Voting Power | | Receivable from members. Non-negotiable Demand Notes |
|----------------------------------|----------------|---------------|--------------------------|--------------------|------------------|-----------------------|----------------|------------------|--|
| | | | | | | | No. of votes | % of total votes | |
| Non-Regional States: | | | | | | | | | |
| Canada | 26,004 | 10.51 | 156,849 | 122,408 | 34,441 | 20,640 | 26,154 | 10.43 | - |
| United Kingdom | 26,004 | 10.51 | 156,849 | 122,408 | 34,441 | 20,640 | 26,154 | 10.43 | 2,150 |
| Italy | 6,235 | 2.52 | 37,608 | 29,375 | 8,233 | 8,234 | 6,385 | 2.55 | 725 |
| Germany | 15,588 | 6.30 | 94,023 | 73,376 | 20,647 | 12,372 | 15,738 | 6.28 | 5,549 |
| China | 15,588 | 6.30 | 94,023 | 73,376 | 20,647 | 12,372 | 15,738 | 6.28 | - |
| | 89,419 | 36.15 | 539,352 | 420,943 | 118,409 | 74,258 | 90,169 | 35.96 | 8,424 |
| Sub-total | 247,455 | 100.00 | 1,492,584 | 1,164,877 | 327,707 | 205,078 | 250,755 | 100.00 | 43,802 |
| Additional subscriptions | | | | | | | | | |
| China | | | 18,804 | 14,688 | 4,116 | 4,116 | | | |
| Colombia | | | 1,810 | 905 | 905 | 905 | | | |
| Germany | | | 12,546 | 9,681 | 2,865 | 2,865 | | | |
| Italy | | | 12,546 | 9,681 | 2,865 | 2,865 | | | |
| Mexico | | | 6,273 | 4,841 | 1,432 | 1,432 | | | |
| Venezuela | | | 1,810 | 905 | 905 | 905 | | | |
| Haiti | | | 2,639 | 2,060 | 579 | 579 | | | |
| Sub-total | - | - | 56,428 | 42,761 | 13,667 | 13,667 | - | - | - |
| Total - December 31, 2012 | 247,455 | 100.00 | \$1,549,012 | \$1,207,638 | \$341,374 | \$218,745 | 250,755 | 100.00 | \$43,802 |
| Total - December 31, 2011 | 239,643 | 100.00 | \$1,501,892 | \$1,170,887 | \$331,005 | \$186,361 | 242,943 | 100.00 | \$44,363 |

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE T – EQUITY...continued

Capital...continued

| Member | 2011 | | | | | | Voting Power | | Receivable from members non-negotiable demand notes |
|--|---------------|------------|--------------------------|------------------|-----------------|-----------------------|--------------|------------------|---|
| | No. of shares | % of total | Total subscribed capital | Callable capital | Paid-up capital | Subscriptions matured | No. of votes | % of total votes | |
| Regional States and Territories | | | | | | | | | |
| Jamaica | 48,354 | 20.18 | 291,659 | 227,614 | 64,045 | 31,961 | 48,504 | 19.97 | 13,733 |
| Trinidad and Tobago | 48,354 | 20.18 | 291,659 | 227,614 | 64,045 | 31,961 | 48,504 | 19.97 | 11,037 |
| Bahamas | 14,258 | 5.95 | 86,001 | 67,115 | 18,886 | 9,426 | 14,408 | 5.93 | 1,612 |
| Guyana | 4,167 | 1.73 | 25,134 | 19,633 | 5,501 | 5,501 | 4,317 | 1.78 | 3,203 |
| Colombia | 7,795 | 3.25 | 47,017 | 36,691 | 10,326 | 5,154 | 7,945 | 3.27 | 628 |
| Mexico | 3,118 | 1.30 | 18,807 | 14,687 | 4,120 | 4,120 | 3,268 | 1.35 | - |
| Venezuela | 3,118 | 1.30 | 18,807 | 14,687 | 4,120 | 4,120 | 3,268 | 1.35 | 3,141 |
| Barbados | 9,074 | 3.79 | 54,732 | 42,717 | 12,015 | 5,999 | 9,224 | 3.80 | 1,070 |
| Belize | 2,148 | 0.90 | 12,956 | 10,109 | 2,847 | 1,419 | 2,298 | 0.95 | - |
| Dominica | 859 | 0.36 | 5,181 | 4,047 | 1,134 | 1,134 | 1,009 | 0.42 | 286 |
| Grenada | 736 | 0.31 | 4,439 | 3,468 | 971 | 971 | 886 | 0.36 | 213 |
| St. Lucia | 2,148 | 0.90 | 12,956 | 10,109 | 2,847 | 1,419 | 2,298 | 0.95 | 360 |
| St. Vincent and the Grenadines | 2,148 | 0.90 | 12,956 | 10,109 | 2,847 | 1,419 | 2,298 | 0.95 | 97 |
| Antigua and Barbuda | 859 | 0.36 | 5,181 | 4,047 | 1,134 | 1,134 | 1,009 | 0.42 | 296 |
| St. Kitts and Nevis | 859 | 0.36 | 5,181 | 4,047 | 1,134 | 1,134 | 1,009 | 0.42 | 255 |
| Anguilla ^{1/} | 182 | 0.36 | 1,098 | 857 | 241 | 241 | | | 14 |
| Montserrat ^{1/} | 213 | 0.08 | 1,285 | 1,001 | 284 | 283 | 1,504 | 0.62 | - |
| British Virgin Islands ^{1/} | 213 | 0.09 | 1,285 | 1,001 | 284 | 283 | | | - |
| Cayman Islands ^{1/} | 213 | 0.09 | 1,285 | 1,001 | 284 | 283 | | | 8 |
| Turks and Caicos Islands ^{1/} | 533 | 0.22 | 3,215 | 2,509 | 706 | 354 | | | - |
| Haiti | 875 | 0.37 | 5,278 | 4,120 | 1,158 | 1,158 | 1,025 | 0.42 | - |
| Sub-total | 150,224 | 62.68 | 906,112 | 707,183 | 198,929 | 109,474 | 152,774 | 62.88 | 35,953 |

^{1/} In accordance with Article 3 of the Charter and Board of Governors Resolution No. 4/81, these territories are considered as a single member of the Bank for the purpose of Articles 26 and 32 of the Charter

**CARIBBEAN DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars, unless otherwise stated)

NOTE T – EQUITY...continued

Capital...continued

| Member | 2011 | | | | | | Voting Power | | Receivable from members non-negotiable demand notes |
|---------------------------------|----------------|---------------|--------------------------|--------------------|------------------|-----------------------|----------------|------------------|---|
| | No. of shares | % of total | Total subscribed capital | Callable capital | Paid-up capital | Subscriptions matured | No. of votes | % of total votes | |
| Sub-total | 150,224 | 62.68 | \$906,112 | \$707,183 | \$198,929 | \$109,474 | 152,774 | 62.88 | \$35,953 |
| Non-Regional States | | | | | | | | | |
| Canada | 26,004 | 10.85 | 156,849 | 122,408 | 34,441 | 17,190 | 26,154 | 10.77 | - |
| United Kingdom | 26,004 | 10.85 | 156,849 | 122,408 | 34,441 | 17,190 | 26,154 | 10.77 | 2,150 |
| Italy | 6,235 | 2.60 | 37,608 | 29,375 | 8,233 | 8,234 | 6,385 | 2.63 | 711 |
| Germany | 15,588 | 6.51 | 94,023 | 73,376 | 20,647 | 10,303 | 15,738 | 6.48 | 5,549 |
| China | 15,588 | 6.51 | 94,023 | 73,376 | 20,647 | 10,303 | 15,738 | 6.48 | - |
| | 89,419 | 37.32 | \$539,352 | \$420,943 | \$118,409 | \$63,220 | 90,169 | 37.12 | \$8,410 |
| Sub-total | 239,643 | 100.00 | \$1,445,464 | \$1,128,126 | \$317,338 | \$172,694 | 242,943 | 100.00 | \$44,363 |
| Additional subscriptions | | | | | | | | | |
| China | - | - | 18,804 | 14,688 | 4,116 | 4,116 | - | - | - |
| Colombia | - | - | 1,810 | 905 | 905 | 905 | - | - | - |
| Germany | - | - | 12,546 | 9,681 | 2,865 | 2,865 | - | - | - |
| Italy | - | - | 12,546 | 9,681 | 2,865 | 2,865 | - | - | - |
| Mexico | - | - | 6,273 | 4,841 | 1,432 | 1,432 | - | - | - |
| Venezuela | - | - | 1,810 | 905 | 905 | 905 | - | - | - |
| Haiti | - | - | 2,639 | 2,060 | 579 | 579 | - | - | - |
| Sub-total | - | - | \$ 56,428 | \$ 42,761 | \$ 13,667 | \$ 13,667 | - | - | - |
| Total - December 31 | 239,643 | 100.00 | \$1,501,892 | \$1,170,887 | \$331,005 | \$186,361 | 242,943 | 100.00 | \$44,363 |

^{1/} In accordance with Article 3 of the Charter and Board of Governors Resolution No. 4/81, these territories are considered as a single member of the Bank for the purpose of Articles 26 and 32 of the Charter

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

(expressed in thousands of United States dollars)

NOTE T – EQUITY...*continued*

Members' subscriptions

The Bank's capital stock is divided into paid-in shares and callable shares. Payment for paid-in shares subscribed by its members is made over a period of years determined in advance. Subscriptions that are not yet payable are presented as subscriptions not yet matured on the statement of financial position. The Charter states that payment of the amount subscribed to the callable capital is subject to call by the Bank to meet its obligations incurred pursuant to Article 7, paragraph 6 taking into account paragraphs (b) and (d) of Article 13 on borrowings of funds or on guarantees, only as and when required by the Bank.

The Charter also allows for a member country to withdraw from the Bank, at which time the Bank is required to arrange for the repurchase of the former member's shares. Only one member has ever withdrawn its membership. No other member has indicated to the Bank that it intends to withdraw its membership from the Bank. The stability in the membership reflects the fact that the purpose of the Bank is to contribute to the harmonious economic growth and development of its Borrowing Member Countries individually and jointly. Moreover, there is a significant financial disincentive to withdrawing membership. The repurchase price of the shares is the value shown on the books of the Bank on the date a country ceases to be a member. However, the former member shall remain liable for direct obligations and contingent liabilities to the Bank for so long as any part of the loans or guarantees contracted before the date of withdrawal are outstanding. The Bank may partially or fully offset amounts due for shares purchased against the member's liabilities on loans and guarantees due to the Bank. Were a member to withdraw, the Bank may set the dates in respect of payments for shares repurchased. In the instance where paying a former member would have adverse consequences for the Bank's financial position, the Bank could defer payment until the risk had passed, and indefinitely if appropriate. If the Bank were to terminate its operations within six months of the termination date, all liabilities of the Bank would first be settled out of the assets of the Bank and then, if necessary, out of members' callable capital, before any distribution could be made to any member country, including the withdrawing member. Based on the above discussion, management has determined that members' shares are deemed to be a permanent investment in the Bank and are appropriately classified as equity.

Under the Charter, payment for the paid-in shares of the original capital stock subscribed to by members was made in installments. Of each installment, up to 50 percent was payable in non-negotiable, non-interest bearing promissory notes or other obligations issued by the subscribing member and payable at their par value upon demand.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

(expressed in thousands of United States dollars)

NOTE T – EQUITY...continued

Retained earnings and reserves

Retained earnings and reserves comprise the following elements:

| | <u>2012</u> | <u>2011</u> |
|---|------------------|------------------|
| Ordinary reserves | \$405,086 | \$398,538 |
| Surplus | 11,648 | 11,648 |
| Operating income | 22,461 | 21,548 |
| Derivative fair value earnings net of cumulative effect of foreign exchange translation | 34,881 | 42,007 |
| Special reserve | 6,254 | 6,254 |
| General banking reserve | 7,856 | 7,856 |
| | <u>\$488,186</u> | <u>\$487,851</u> |

In accordance with Article 39 of the Charter, the Board of Governors shall determine at least annually the disposition of the net income of the Bank arising from its Ordinary Operations. The Banks' net income is typically allocated to the Ordinary Reserves. These reserves are available to meet possible future losses on loans and guarantees made by the Bank in its Ordinary operations and possible future losses from currency devaluations.

During the year, the Board of Governors of the Bank upon the recommendation of the Board of Directors and acting under Article 39 of the Bank's Charter, approved an allocation of \$15,000 from the net income of the Ordinary Capital Resources to the Special Development Fund – Unified.

Special reserve

In accordance with Article 18 of the Charter, commissions and guarantee fees received on loans made out of the Ordinary Capital Resources of the Bank are required to be set aside in a Special Reserve which shall be kept for meeting liabilities of the Bank. The assets of the Special Reserve are to be held in such liquid form as the Board of Directors may decide.

At the One Hundred and Nineteenth Meeting of the Board of Directors held on July 21, 1988, the Board decided that appropriations to the Special Reserve should be discontinued with effect from January 1, 1989. Pursuant thereto, no commission is charged on loans approved after January 1, 1989, and all amounts received after that date as commission on loans approved before that date are treated as interest and accounted for as such. During 1993, the Special Reserve was converted into United States dollars and is valued at \$6,254.

CARIBBEAN DEVELOPMENT BANK

ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

(expressed in thousands of United States dollars)

NOTE U– INCOME FROM LOANS, INVESTMENTS AND CASH BALANCES

Income from loans

Income from loans for the years ended December 31, 2012 and 2011 was as follows:

| | <u>2012</u> | <u>2011</u> |
|-----------------|-----------------|-----------------|
| Interest income | \$37,289 | \$38,288 |
| Other fees | 2,350 | 2,294 |
| Total | <u>\$39,639</u> | <u>\$40,582</u> |

Other financial income and expenses

Other financial income and expenses is comprised of the net interest position on the swaps and includes other finance charges.

NOTE V – ADMINISTRATIVE EXPENSES

Administrative expenses incurred by the Bank are allocated between the Ordinary Capital Resources and the Special Funds Resources in accordance with a method of allocation approved by the Board of Directors.

Administrative expenses allocated to the OCR are as follows:

| | <u>2012</u> | <u>2011</u> |
|-------------------------------------|-----------------|-----------------|
| Staff related | \$6,750 | \$6,465 |
| Professional fees and consultancies | 1,258 | 650 |
| Travel | 555 | 508 |
| Depreciation | 562 | 591 |
| Other | 295 | 401 |
| Utilities and maintenance | 444 | 426 |
| Training and seminars | 222 | 235 |
| Supplies and printing | 89 | 67 |
| Board of Governors and Directors | 255 | 191 |
| Computer services | 328 | 400 |
| Communications | 204 | 175 |
| Bank charges | 39 | 41 |
| Insurance | 28 | 33 |
| Total administrative expenses | <u>\$11,029</u> | <u>\$10,183</u> |

**CARIBBEAN DEVELOPMENT BANK
ORDINARY CAPITAL RESOURCES**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

(expressed in thousands of United States dollars)

NOTE W – ADMINISTRATIVE EXPENSES...*continued*

Staff costs charged to the OCR are as follows:

| | 2012 | 2011 |
|--|----------------|----------------|
| Salaries and allowances | \$4,726 | \$4,628 |
| Pension costs – hybrid scheme ^{1/} | 120 | 96 |
| Pension costs – defined benefit plan ^{1/} | 1,339 | 1,209 |
| Medical expenses | 237 | 322 |
| Other benefits | 328 | 210 |
| | <u>\$6,750</u> | <u>\$6,465</u> |

^{1/}This represents the allocation of the net pension costs to the OCR. The full pension expense for the hybrid scheme amounted to \$203 and \$2,924 for the defined benefit plan.

NOTE X – DERIVATIVE FAIR VALUE ADJUSTMENT

The derivative fair value adjustment of \$31,129 (2011: (\$31,925)) included in the statement of income is derived as a result of the revaluation of the cross currency interest rate swaps.

NOTE Y – RELATED PARTY TRANSACTIONS

The movement in interfund receivables in accounts receivables at December 31 is as follows:

| | 2012 | 2011 |
|---------------------------------------|-------------|----------------|
| January 1 | \$8,235 | \$9,476 |
| Advances during the year | 75,524 | 29,310 |
| Allocation of administrative expenses | 16,391 | 14,773 |
| Repayments during the year | (100,150) | (45,324) |
| December 31 | <u>\$ -</u> | <u>\$8,235</u> |

CARIBBEAN DEVELOPMENT BANK ORDINARY CAPITAL RESOURCES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2011

(expressed in thousands of United States dollars)

NOTE Z – RELATED PARTY TRANSACTIONS...*continued*

Key management compensation as at December 31 is as follows:

| | <u>2012</u> | <u>2011</u> |
|-----------------------------|----------------|----------------|
| Key management compensation | | |
| Salaries and allowances | \$1,332 | \$1,504 |
| Post-employment benefits | 1,374 | 690 |
| | <u>\$2,706</u> | <u>\$2,194</u> |

In 2008, the interest subsidy fund was established by the Board of Directors of the Bank to subsidize part of the interest payments for which certain borrowers are liable on loans to the OCR. During 2012, \$586 (2011 - \$431) was received from the Other Special Funds in interest on behalf of the borrowers.

NOTE AA – COMMITMENTS AND GUARANTEES

At December 31, 2012, CDB had undisbursed loan balances of \$285,274 (2011: \$229,975) as well as approved capital expenditure commitments amounting to \$nil (2011: \$1,780) for the 2012 financial year.

At its two hundred and forty ninth meeting held on December 8, 2011, the Bank issued a guarantee in an amount not exceeding the equivalent of \$12,000 with respect to the Bonds to be issued by the Government of St. Kitts and Nevis.

Caribbean Development Bank
Special Funds Resources – Special Development Fund

INDEPENDENT AUDITOR'S REPORT

To the Board of Governors Caribbean Development Bank

We have audited the accompanying special purpose financial statements of the **Special Development Fund** of the **Caribbean Development Bank** (the "Bank") for the year ended December 31, 2012, which comprise the statement of financial position as at December 31, 2012 and the statement of income and accumulated income for the year then ended, and a summary of significant accounting policies and other explanatory information. The special purpose financial statements have been prepared on the basis set out in Note A.

Management's responsibility for the special purpose financial statements

Management is responsible for the preparation and presentation of these special purpose financial statements on the basis described in Note A. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of special purpose 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 special purpose financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. International Standards on Auditing require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the special purpose financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the special purpose 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 presentation of the special purpose 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, if any, made by management, as well as evaluating the overall presentation of the special purpose 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 accompanying special purpose financial statements have been prepared, in all material respects, in accordance with the basis set out in Note A.

CHARTERED ACCOUNTANTS
Bridgetown, Barbados

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND

STATEMENT OF FINANCIAL POSITION

As of December 31, 2012

(expressed in thousands of United States dollars)

| | 2012 | | | 2011 | | |
|---|------------------|-----------------|------------------|------------------|-----------------|------------------|
| | Unified | Other | Total | Unified | Other | Total |
| Assets | | | | | | |
| Cash and cash equivalents – Note A | \$11,699 | \$2,239 | \$13,938 | \$33,646 | \$23,548 | \$57,194 |
| Debt securities at fair value through profit or loss (Schedule 1) | 274,791 | 57,905 | 332,696 | 240,828 | 36,599 | 277,427 |
| Loans (Schedule 2) | 463,518 | 19,449 | 482,967 | 448,451 | 20,570 | 469,021 |
| Receivables – other | | | | | | |
| Accounts receivable including interfund receivables | 7,854 | - | 7,854 | 1 | - | 1 |
| | <u>\$757,862</u> | <u>\$79,593</u> | <u>\$837,455</u> | <u>\$722,926</u> | <u>\$80,717</u> | <u>\$803,643</u> |
| Receivable from contributors | | | | | | |
| Non-negotiable demand notes (Schedule 3) | 61,213 | - | 61,213 | 59,247 | - | 59,247 |
| Contribution in arrears | 9,597 | - | 9,597 | 12,287 | - | 12,287 |
| | <u>70,810</u> | <u>-</u> | <u>70,810</u> | <u>71,534</u> | <u>-</u> | <u>71,534</u> |
| Total assets | <u>\$828,672</u> | <u>\$79,593</u> | <u>\$908,265</u> | <u>\$794,460</u> | <u>\$80,717</u> | <u>\$875,177</u> |
| Liabilities and Funds | | | | | | |
| Liabilities | | | | | | |
| Accounts payable including interfund payables | 70,702 | 1,185 | 71,887 | 70,763 | 939 | 71,702 |
| Accrued charges on contributions | - | 5 | 5 | - | 9 | 9 |
| | <u>\$70,702</u> | <u>\$1,190</u> | <u>\$71,892</u> | <u>\$70,763</u> | <u>\$948</u> | <u>\$71,711</u> |

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

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND

STATEMENT OF FINANCIAL POSITION

As of December 31, 2012

(expressed in thousands of United States dollars)

| Funds | 2012 | | | 2011 | | |
|--|------------------|-----------------|------------------|------------------|-----------------|------------------|
| | Unified | Other | Total | Unified | Other | Total |
| Contributed resources (Schedule 3) | | | | | | |
| Contributions | \$967,672 | \$42,962 | \$1,010,634 | \$970,353 | \$43,786 | \$1,014,139 |
| Less amounts not yet made available | (4,249) | - | (4,249) | (54,006) | - | (54,006) |
| Amounts made available | 963,423 | 42,962 | 1,006,385 | 916,347 | 43,786 | 960,133 |
| Allocation to technical assistance and grant resources | (324,897) | (2,266) | (327,163) | (320,950) | (2,266) | (323,216) |
| | 638,526 | 40,696 | 679,222 | 595,397 | 41,520 | 636,917 |
| Accumulated net income (Schedule 4) | \$56,730 | \$36,801 | 93,531 | 41,832 | 37,343 | 79,175 |
| Technical assistance and grant resources – Note E | 62,714 | 906 | 63,620 | 86,468 | 906 | 87,374 |
| | \$757,970 | \$78,403 | \$836,373 | \$723,697 | \$79,769 | \$803,466 |
| Total liabilities and funds | \$828,672 | \$79,593 | \$908,265 | \$794,460 | \$80,717 | \$875,177 |

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

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND
STATEMENT OF COMPREHENSIVE INCOME AND ACCUMULATED NET INCOME
For the year ended December 31, 2012

(expressed in thousands of United States dollars)

| | 2012 | | | 2011 | | |
|---|-----------------|-----------------|-----------------|----------------|--------------|--------------|
| | Unified | Other | Total | Unified | Other | Total |
| Interest and similar income | | | | | | |
| Loans | \$10,369 | \$466 | \$10,835 | \$10,054 | \$488 | \$10,542 |
| Investments and cash balances | 3,485 | 840 | 4,325 | 3,434 | 959 | 4,393 |
| | 13,854 | 1,306 | 15,160 | 13,488 | 1,447 | 14,935 |
| Expenses | | | | | | |
| Administrative expenses | 13,950 | 1,017 | 14,967 | 12,260 | 1,046 | 13,306 |
| Charges on contributions | - | 55 | 55 | - | 86 | 86 |
| Foreign exchange losses/ (gains) | 6 | (124) | (118) | 353 | (388) | (35) |
| | 13,956 | 948 | 14,904 | 12,613 | 744 | 13,357 |
| Total comprehensive (loss)/income for the year | (\$102) | \$358 | \$256 | \$875 | \$703 | \$1,578 |
| Accumulated net income | | | | | | |
| Accumulated net income – beginning of year | \$41,832 | \$37,343 | \$79,175 | \$40,957 | \$42,540 | \$83,497 |
| Appropriations for technical assistance | - | (900) | (900) | - | (5,900) | (5,900) |
| Total comprehensive (loss)/income for the year | (102) | 358 | 256 | 875 | 703 | 1,578 |
| Appropriation from OCR retained earnings | 15,000 | - | 15,000 | - | - | - |
| Accumulated net income– end of year | \$56,730 | \$36,801 | \$93,531 | \$41,832 | \$37,343 | \$79,175 |

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

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND (UNIFIED)

STATEMENT OF CASH FLOWS

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

| | 2012 | 2011 |
|--|-----------------|-------------|
| Operating activities | | |
| Net income for the year | (\$102) | \$875 |
| Adjustments for non-cash items | | |
| Unrealized gain on debt securities at fair value through profit or loss | 163 | 654 |
| Interest income | (13,854) | (13,488) |
| Total cash flows used in operating activities before changes in operating assets and liabilities | (13,691) | (12,834) |
| Changes in operating assets and liabilities: | | |
| Increase in accounts receivable | (7,853) | - |
| Increase in accounts payable | (61) | 5,392 |
| Cash used in operating activities | (21,605) | (7,442) |
| Disbursements on loans | (32,792) | (35,266) |
| Principal repayments to the Bank on loans | 18,477 | 18,017 |
| Interest received | 13,254 | 13,512 |
| Net increase in debt securities at fair value through profit or loss | (34,278) | (39,049) |
| Technical assistance disbursements | (16,204) | (14,332) |
| Net cash used in operating activities | (73,250) | (63,685) |
| Financing activities | | |
| Contributions | | |
| Increase in contributions for loans | 42,394 | 13,585 |
| Decrease/(increase) in receivables from contributors | 724 | 3,250 |
| Technical assistance allocation | (7,550) | 23,135 |
| Net cash provided by financing activities | 35,568 | 39,970 |
| Appropriation from OCR retained earnings | 15,000 | - |
| Net decrease in cash and cash equivalents | (22,682) | (23,715) |
| Net foreign exchange gains/(losses) | 735 | (299) |
| Cash and cash equivalents at beginning of year | 33,646 | 57,660 |
| Cash and cash equivalents at end of year | \$11,699 | 33,646 |

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

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND (OTHER)

STATEMENT OF CASH FLOWS

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

| | 2012 | 2011 |
|---|-----------------|-------------|
| Operating activities | | |
| Net income for the year | \$358 | \$703 |
| Adjustments for non-cash items | | |
| Unrealized loss on trading portfolio | (208) | 26 |
| Interest income | (1,306) | (1,447) |
| Interest expense | 55 | 86 |
| Total cash flows from operating activities before changes in operating assets and liabilities | (1,459) | (1,335) |
| Increase/ (decrease) in accounts payable | 246 | (14) |
| Cash used in operating activities | (1,213) | (1,349) |
| Disbursements on loans | (31) | (376) |
| Principal repayments to the Bank on loans | 1,158 | 1,254 |
| Interest received | 1,310 | 1,757 |
| Interest paid | (59) | (89) |
| Net (increase)/decrease in debt securities at fair value through profit and loss | (21,108) | 17,410 |
| Net cash (used in)/provided by operating activities | (19,943) | 19,310 |
| Financing activities: | | |
| Contributions | | |
| Repayments of contributions | (1,046) | (1,017) |
| Net cash used in financing activities | (1,046) | (1,017) |
| Appropriations of accumulated net income | (900) | (5,900) |
| Net (decrease)/ increase in cash and cash equivalents | (21,531) | 12,393 |
| Net foreign exchange gains/(losses) | 222 | (104) |
| Cash and cash equivalents - beginning of year | 23,548 | 11,259 |
| Cash and cash equivalents - end of year | \$2,239 | \$23,548 |

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

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUND RESOURCES – SPECIAL DEVELOPMENT FUND

SUMMARY STATEMENT OF INVESTMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 1

| | 2012 | | | 2011 | | |
|---|---------------------|--------------|--------------|---------------------|--------------|--------------|
| | Market value | | | Market value | | |
| Financial assets at fair value through Profit and Loss | Unified | Other | Total | Unified | Other | Total |
| Government and Agency Obligations | \$192,424 | \$44,931 | \$237,355 | \$165,054 | \$29,115 | \$194,169 |
| Supranationals | 81,345 | 12,756 | 94,101 | 50,778 | 5,761 | 56,539 |
| Euro Commercial Paper | - | - | - | 23,822 | 1,495 | 25,317 |
| Sub-total | \$273,769 | \$57,687 | \$331,456 | 239,654 | 36,371 | 276,025 |
| Accrued interest | 1,022 | 218 | 1,240 | 1,174 | 228 | 1,402 |
| Total | \$274,791 | \$57,905 | \$332,696 | \$240,828 | \$36,599 | \$277,427 |

Residual term to contractual maturity

| | 2012 | 2011 |
|-------------------------------|-------------|-------------|
| One month to three months | 14,809 | \$37,943 |
| Over three months to one year | 70,338 | 58,479 |
| From one year to five years | 225,728 | 142,244 |
| From five years to ten years | 21,821 | 38,761 |
| Total | \$332,696 | \$277,427 |

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND (UNIFIED)

SUMMARY STATEMENT OF LOANS

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 2

| Member countries in which loans have been made | 2012 | | | | % of Total Loans Outstanding |
|--|---|--------------------------------|------------------|---------------------------|------------------------------------|
| | Loans approved but not yet effective | Principal repaid to Bank | Undisbursed | Outstanding ^{1/} | |
| Anguilla | \$ 425 | \$6,396 | \$ 112 | \$ 3,145 | 0.7 |
| Antigua and Barbuda | - | 7,839 | - | 2,937 | 0.6 |
| Bahamas | - | 1,623 | - | - | 0.0 |
| Barbados | - | 5,266 | - | 469 | 0.1 |
| Belize | 7,086 | 27,539 | 14,715 | 38,777 | 8.4 |
| British Virgin Islands | - | 9,063 | 300 | 1,654 | 0.4 |
| Cayman Islands | - | 4,219 | - | - | 0.0 |
| Dominica | 2,166 | 30,373 | 18,430 | 53,798 | 11.7 |
| Grenada | - | 26,738 | 18,895 | 68,395 | 14.9 |
| Guyana | 25,000 | 26,944 | 6,922 | 106,031 | 23.0 |
| Jamaica | 10,000 | 38,812 | 38,513 | 73,263 | 15.9 |
| Montserrat | - | 5,248 | 2,500 | 2,691 | 0.6 |
| St. Kitts and Nevis | 17,760 | 22,817 | 1,792 | 34,192 | 7.4 |
| St. Lucia | 6,862 | 27,953 | 38,205 | 36,214 | 7.9 |
| St. Vincent and the Grenadines | 7,106 | 25,778 | 19,265 | 29,070 | 6.3 |
| Trinidad and Tobago | 1,000 | 4,218 | - | - | 0.0 |
| Turks and Caicos Islands | - | 5,935 | - | 5,857 | 1.3 |
| Regional | - | 5,239 | - | 3,744 | 0.8 |
| Sub-total | \$77,405 | \$282,000 | \$159,649 | \$460,237 | 100.0 |
| Accrued interest | - | - | - | 3,281 | |
| Total – December 31 | \$77,405 | \$282,000 | \$159,649 | \$463,518 | |

^{1/} There are no overdue installments of principal (2010 - nil).

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND (UNIFIED)

SUMMARY STATEMENT OF LOANS...continued

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 2

| Member countries in which loans have been made | 2011 | | | | % of Total Loans Outstanding |
|--|---|--------------------------------|------------------|---------------------------|------------------------------------|
| | Loans approved but not yet effective | Principal repaid to Bank | Undisbursed | Outstanding ^{1/} | |
| Anguilla | \$695 | \$6,035 | \$19 | \$3,593 | 0.8 |
| Antigua and Barbuda | - | 7,531 | 1,123 | 3,103 | 0.7 |
| Bahamas | - | 1,619 | - | - | - |
| Barbados | - | 5,224 | - | 500 | 0.1 |
| Belize | - | 25,270 | 15,252 | 38,734 | 8.7 |
| British Virgin Islands | - | 8,909 | 300 | 1,800 | 0.4 |
| Cayman Islands | - | 4,161 | - | - | - |
| Dominica | 10,300 | 28,786 | 10,450 | 50,142 | 11.2 |
| Grenada | 6,580 | 25,766 | 15,736 | 66,094 | 14.8 |
| Guyana | - | 24,101 | 15,368 | 100,904 | 22.6 |
| Jamaica | - | 35,054 | 50,765 | 64,700 | 14.5 |
| Montserrat | - | 5,055 | 2,500 | 2,877 | 0.7 |
| St. Kitts and Nevis | 17,760 | 20,886 | 3,146 | 35,181 | 7.9 |
| St. Lucia | 7,233 | 25,557 | 31,723 | 37,906 | 8.5 |
| St. Vincent & the Grenadines | 14,550 | 23,864 | 5,432 | 30,079 | 6.8 |
| Trinidad & Tobago | 1,000 | 4,218 | - | - | - |
| Turks & Caicos Islands | - | 5,374 | 1,051 | 6,390 | 1.4 |
| Regional | - | 5,028 | - | 3,919 | 0.9 |
| Sub-total | 58,118 | 262,438 | 152,865 | 445,922 | 100.0 |
| Accrued interest | - | - | - | 2,529 | |
| Total – December 31 | \$58,118 | \$262,438 | \$152,865 | \$448,451 | |

^{1/} There were no overdue installments of principal (2009 - \$28).

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND (OTHER)

SUMMARY STATEMENT OF LOANS...continued

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 2

| Member countries in which loans have been made | 2012 | | | % of Total Loans Outstanding |
|--|--------------------------------|--------------|---------------------------|------------------------------------|
| | Principal repaid to Bank | Undisbursed | Outstanding ^{1/} | |
| Anguilla | \$1,452 | \$- | \$- | 0.0 |
| Antigua and Barbuda | 3,298 | - | 480 | 2.5 |
| Bahamas | 773 | - | - | 0.0 |
| Barbados | 1,618 | - | - | 0.0 |
| Belize | 20,116 | - | 7,654 | 39.6 |
| British Virgin Islands | 4,473 | - | 105 | 0.5 |
| Cayman Islands | 620 | - | - | 0.0 |
| Dominica | 12,061 | - | 1,999 | 10.4 |
| Grenada | 4,770 | - | 168 | 0.9 |
| Guyana | 22 | - | - | 0.0 |
| Jamaica | 5,169 | - | 1,701 | 8.8 |
| Montserrat | 787 | - | - | 0.0 |
| St. Kitts and Nevis | 6,391 | - | 5,436 | 28.1 |
| St. Lucia | 21,084 | 437 | 531 | 2.8 |
| St. Vincent and the Grenadines | 11,106 | - | 1,249 | 6.5 |
| Turks and Caicos Islands | 1,551 | - | - | 0.0 |
| Regional | 2,519 | - | - | 0.0 |
| | \$97,810 | \$437 | \$19,323 | 100.00 |
| Sub-total | - | - | 126 | |
| Accrued interest | | | | |
| Total – December 31 | \$97,810 | \$437 | \$19,449 | |

^{1/} There were no overdue installments of principal (2010 - nil).

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND

SUMMARY STATEMENT OF LOANS...continued

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

| Member countries in which loans have been made | 2011 | | | % of Total Loans Outstanding |
|--|--------------------------------|--------------|---------------------------|------------------------------------|
| | Principal repaid to Bank | Undisbursed | Outstanding ^{1/} | |
| Anguilla | \$1,430 | \$ - | \$ - | - |
| Antigua and Barbuda | 3,256 | - | 494 | 2.4 |
| Bahamas | 773 | - | - | - |
| Barbados | 1,614 | - | - | - |
| Belize | 19,590 | - | 8,128 | 39.7 |
| British Virgin Islands | 4,376 | - | 152 | 0.7 |
| Cayman Islands | 609 | - | - | - |
| Dominica | 11,852 | - | 2,063 | 10.1 |
| Grenada | 4,706 | - | 168 | 0.8 |
| Guyana | 22 | - | - | - |
| Jamaica | 5,019 | - | 1,852 | 9.1 |
| Montserrat | 786 | - | - | - |
| St. Kitts and Nevis | 6,070 | 144 | 5,665 | 27.7 |
| St. Lucia | 20,794 | 477 | 607 | 3.0 |
| St. Vincent and the Grenadines | 11,022 | - | 1,321 | 6.5 |
| Turks and Caicos Islands | 1,535 | - | - | - |
| Regional | 2,518 | - | - | - |
| Sub-total | 95,972 | 621 | 20,450 | 100.0 |
| Accrued interest | - | - | 120 | |
| Total – December 31 | \$95,972 | \$621 | \$20,570 | |

^{1/} There were no overdue installments of principal (2009 – \$28).

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND

SUMMARY STATEMENT OF LOANS...continued

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 2

| 2012 | | | | | |
|---|--------------------------------------|--------------------------|------------------|---------------------------|------------------------------|
| Analysis by Contributor | Loans approved but not yet effective | Principal repaid to Bank | Undisbursed | Outstanding ^{1/} | % of total loans outstanding |
| Special Development Fund - Unified | | | | | |
| Members/Contributors | \$77,405 | \$282,000 | \$159,649 | \$460,237 | 100.00 |
| Accrued interest | - | - | - | 3,281 | |
| Total SDF – (Unified) | \$77,405 | \$282,000 | \$159,649 | \$463,518 | |
| Members | | | | | |
| Colombia | - | 8,279 | - | 255 | 1.3 |
| Germany | - | 18,958 | - | 122 | 0.6 |
| Mexico | - | 6,694 | - | 2,121 | 11.0 |
| Venezuela | - | 35,412 | 437 | 16,794 | 86.9 |
| Other contributors | | | | | |
| Sweden | - | 5,634 | - | 31 | 0.2 |
| United States of America | - | 22,833 | - | - | - |
| | - | 28,467 | - | 31 | - |
| Sub-total | - | \$97,810 | \$437 | \$19,323 | |
| Accrued interest | - | - | - | 126 | |
| Total – SDF (Other) | - | \$97,810 | \$437 | \$19,449 | |
| Total SDF – December 31 | \$77,405 | \$379,810 | \$160,086 | \$482,967 | |

^{1/}There were no overdue installments of principal (2010- nil).

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND

SUMMARY STATEMENT OF LOANS... continued

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 2

| Analysis by Contributor | 2011 | | | | % of total loans outstanding |
|---|--------------------------------------|--------------------------|------------------|---------------------------|------------------------------|
| | Loans approved but not yet effective | Principal repaid to Bank | Undisbursed | Outstanding ^{1/} | |
| Special Development Fund - Unified | | | | | |
| Members/Contributors | \$58,118 | \$262,438 | \$152,964 | \$445,922 | 100.00 |
| Accrued interest | - | - | - | 2,529 | |
| Total SDF – (Unified) | \$58,118 | \$262,438 | \$152,964 | \$448,451 | |
| Members | | | | | |
| Colombia | \$ - | \$8,214 | \$ - | \$319 | 1.6 |
| Germany | - | 18,593 | - | 122 | 0.6 |
| Mexico | - | 6,564 | - | 2,251 | 11.0 |
| Venezuela | - | 34,449 | 621 | 17,727 | 86.6 |
| | - | 67,820 | 621 | 20,419 | 99.8 |
| Other contributors | | | | | |
| Sweden | - | 5,319 | - | 31 | 0.2 |
| United States of America | - | 22,833 | - | - | - |
| | - | 28,152 | - | 31 | 100.0 |
| Sub-total | - | 95,972 | 621 | 20,450 | |
| Accrued interest | - | - | - | 120 | |
| Total – SDF (Other) | \$- | \$95,972 | \$621 | \$20,570 | |
| Total SDF – December 31 | \$58,118 | \$358,410 | \$153,585 | \$469,021 | |

^{1/}There were no overdue installments of principal (2009 - \$28).

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND

SUMMARY STATEMENT OF LOANS...continued

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 2

| Currencies Receivable | 2012 | | | | | Loans out- standing 2012 |
|---|-----------------------------------|---------------------------|--------------------|------------------|-------------------|-----------------------------------|
| | Loans out- standing 2011 | Net interest earned | Disburse- ments | Sub- total | Repay- ments | |
| (a) Special Development Fund - Unified | | | | | | |
| United States dollars | \$445,922 | \$- | \$32,792 | \$478,714 | \$(18,477) | \$460,237 |
| Accrued interest | 2,529 | 752 | - | 3,281 | - | 3,281 |
| Total – December 31 | \$448,451 | \$752 | \$32,792 | \$481,995 | \$(18,477) | \$463,518 |
| (b) Special Development Fund - Other | | | | | | |
| United States dollars | 20,450 | - | 31 | 20,481 | (1,158) | 19,323 |
| Accrued interest ¹ | 120 | 6 | - | 126 | - | 126 |
| Total – December 31 | \$20,570 | \$6 | \$31 | \$20,607 | \$(1,158) | \$19,449 |

Maturity structure of loans outstanding

| | |
|--------------------------------------|------------------|
| January 1, 2013 to December 31, 2013 | 25,674 |
| January 1, 2014 to December 31, 2014 | 23,232 |
| January 1, 2015 to December 31, 2015 | 25,921 |
| January 1, 2016 to December 31, 2016 | 26,684 |
| January 1, 2017 to December 31, 2017 | 27,180 |
| January 1, 2018 to December 31, 2022 | 127,030 |
| January 1, 2023 to December 31, 2027 | 106,443 |
| January 1, 2028 to December 31, 2032 | 79,649 |
| January 1, 2033 to December 31, 2042 | 41,154 |
| Total | \$482,967 |

¹/Relates to amounts disbursed and outstanding.

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND

SUMMARY STATEMENT OF LOANS...continued

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 2

| Currencies Receivable | 2011 | | | | | Loans out- standing 2010 |
|---|-----------------------------------|---------------------------|--------------------|------------------|-------------------|-----------------------------------|
| | Loans out- standing 2009 | Net interest earned | Disburse- ments | Sub- total | Repay- ments | |
| (c) Special Development Fund - Unified | | | | | | |
| United States dollars | \$428,673 | \$ - | \$35,266 | \$463,939 | \$(18,017) | \$445,922 |
| Accrued interest ¹ | 2,371 | 158 | - | 2,529 | - | 2,529 |
| Total – December 31 | \$431,044 | \$158 | \$35,266 | \$466,468 | \$(18,017) | \$448,451 |
| (d) Special Development Fund - Other | | | | | | |
| United States dollars | \$22,328 | \$ - | \$376 | \$21,704 | \$(1,254) | \$20,450 |
| Accrued interest | 125 | (5) | - | 120 | - | 120 |
| Total – December 31 | \$21,453 | \$(5) | \$376 | \$21,824 | \$(1,254) | \$20,570 |

Maturity structure of loans outstanding

| | |
|--------------------------------------|------------------|
| January 1, 2011 to December 31, 2011 | \$23,178 |
| January 1, 2012 to December 31, 2012 | 21,090 |
| January 1, 2013 to December 31, 2013 | 22,675 |
| January 1, 2014 to December 31, 2014 | 25,185 |
| January 1, 2015 to December 31, 2015 | 25,848 |
| January 1, 2016 to December 31, 2020 | 124,709 |
| January 1, 2021 to December 31, 2025 | 102,302 |
| January 1, 2026 to December 31, 2030 | 80,230 |
| January 1, 2031 to December 31, 2042 | 43,804 |
| TOTAL | \$469,021 |

¹/Relates to amounts disbursed and outstanding.

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND

STATEMENT OF CONTRIBUTED RESOURCES

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 3

| Contributors | 2012 | | | | | |
|---|------------------------------|--|---------------------------|--------------------------------|------------------------|---|
| | Total approved ^{1/} | Approved but not yet effective ^{2/} | Total contribution agreed | Amounts not yet made available | Amounts made available | Receivable from members non-negotiable demand notes |
| Special Development Fund – Unified | | | | | | |
| Members | | | | | | |
| Trinidad and Tobago | \$35,384 | \$- | \$35,384 | \$- | \$35,384 | \$9,057 |
| Bahamas | 19,809 | - | 19,809 | 4,249 | 15,560 | 6,931 |
| Barbados | 19,805 | - | 19,805 | - | 19,805 | 2,832 |
| Jamaica | 33,204 | - | 33,204 | - | 33,204 | 7,638 |
| Guyana | 19,810 | - | 19,810 | - | 19,810 | - |
| Antigua and Barbuda | 2,257 | 605 | 1,652 | - | 1,652 | 32 |
| Belize | 5,134 | - | 5,134 | - | 5,134 | 1,943 |
| Dominica | 4,874 | - | 4,874 | - | 4,874 | 2,395 |
| St. Kitts and Nevis | 5,134 | - | 5,134 | - | 5,134 | 2,494 |
| St. Lucia | 5,134 | - | 5,134 | - | 5,134 | 1,944 |
| St. Vincent and the Grenadines | 5,147 | - | 5,147 | - | 5,147 | 2,494 |
| Grenada | 3,345 | - | 3,345 | - | 3,345 | 2,712 |
| Montserrat | 2,045 | 605 | 1,440 | - | 1,440 | - |
| British Virgin Islands | 2,045 | - | 2,045 | - | 2,045 | - |
| Turks and Caicos Islands | 2,045 | 605 | 1,440 | - | 1,440 | - |
| Cayman Islands | 1,945 | 605 | 1,340 | - | 1,340 | - |
| Anguilla | 2,045 | - | 2,045 | - | 2,045 | 1,051 |
| Colombia | 27,133 | 3,600 | 23,533 | - | 23,533 | - |
| Venezuela | 21,982 | - | 21,982 | - | 21,982 | - |
| Canada | 264,438 | - | 264,438 | - | 264,438 | - |
| United Kingdom | 211,246 | - | 211,246 | - | 211,246 | 14,287 |
| Germany | 82,689 | - | 82,689 | - | 82,689 | 5,403 |
| Italy | 64,101 | 7,083 | 57,018 | - | 57,018 | - |
| China | 41,298 | - | 41,298 | - | 41,298 | - |
| Haiti | 1,560 | - | 1,560 | - | 1,560 | - |
| Mexico | 17,000 | 3,000 | 14,000 | - | 14,000 | - |
| | 900,609 | 16,103 | 884,506 | 4,249 | 880,257 | 61,213 |
| Other contributors | | | | | | |
| France | 58,254 | - | 58,254 | - | 58,254 | - |
| Chile | 10 | - | 10 | - | 10 | - |
| Netherlands | 24,902 | - | 24,902 | - | 24,902 | - |
| | 983,775 | 16,103 | 967,672 | 4,249 | 963,423 | 61,213 |
| Technical assistance allocation | (324,897) | - | (324,897) | - | (324,897) | - |
| Sub-total | \$658,878 | \$16,103 | \$642,775 | \$4,249 | \$638,526 | \$61,213 |

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND

STATEMENT OF CONTRIBUTED RESOURCES...continued

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 3

| Contributors | 2012 | | | | | |
|---|------------------------------|--|---------------------------|--------------------------------|------------------------|---|
| | Total approved ^{1/} | Approved but not yet effective ^{2/} | Total contribution agreed | Amounts not yet made available | Amounts made available | Receivable from members non-negotiable demand notes |
| Sub-total b/fwd | \$628,175 | \$16,103 | \$612,072 | \$4,249 | \$607,823 | \$61,213 |
| Special Development Fund – Other | | | | | | |
| Members | | | | | | |
| Colombia | 5,000 | - | 5,000 | - | 5,000 | - |
| Mexico ^{3/} | 13,067 | - | 13,067 | - | 13,067 | - |
| Venezuela | 17,474 | - | 17,474 | - | 17,474 | - |
| | 35,541 | - | 35,541 | - | 35,541 | - |
| Other contributors | | | | | | |
| Sweden | 3,992 | - | 3,992 | - | 3,992 | - |
| United States of America ^{4/} | 1,163 | - | 1,163 | - | 1,163 | - |
| | 5,155 | - | 5,155 | - | 5,155 | - |
| Sub-total | 40,696 | - | 40,696 | - | 40,696 | - |
| Total – SDF | \$699,574 | \$16,103 | \$683,471 | \$4,249 | \$679,222 | \$61,213 |
| Summary | | | | | | |
| Members | 611,263 | 16,103 | 595,160 | 4,249 | 590,911 | 61,213 |
| Other contributors | 88,311 | - | 88,311 | - | 88,311 | - |
| Total – SDF | \$699,574 | \$16,103 | \$683,471 | \$4,249 | \$679,222 | \$61,213 |

1/Net of repayments

2/Contributions not yet firmly pledged by Governments

3/ Net of appropriation for Technical Assistance of \$2,266,000

4/Contribution with fixed repayment dates

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND

STATEMENT OF CONTRIBUTED RESOURCES...continued

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 3

| Contributors | 2011 | | | | | |
|---|------------------------------|--|---------------------------|--------------------------------|------------------------|---|
| | Total approved ^{1/} | Approved but not yet effective ^{2/} | Total contribution agreed | Amounts not yet made available | Amounts made available | Receivable from members non-negotiable demand notes |
| Special Development Fund - Unified | | | | | | |
| Members | | | | | | |
| Trinidad and Tobago | \$35,384 | \$- | \$35,384 | \$2,546 | \$32,838 | \$9,057 |
| Bahamas | 19,809 | - | 19,809 | 4,249 | 15,560 | 6,931 |
| Barbados | 19,805 | - | 19,805 | - | 19,805 | 4,249 |
| Jamaica | 33,204 | - | 33,204 | 2,546 | 30,658 | 5,728 |
| Guyana | 19,810 | - | 19,810 | 1,416 | 18,394 | - |
| Antigua and Barbuda | 2,257 | 605 | 1,652 | - | 1,652 | 32 |
| Belize | 5,134 | - | 5,134 | 349 | 4,785 | 1,595 |
| Dominica | 4,873 | - | 4,873 | 348 | 4,525 | 2,047 |
| St. Kitts and Nevis | 5,135 | - | 5,135 | 349 | 4,786 | 2,145 |
| St. Lucia | 5,134 | - | 5,134 | 348 | 4,786 | 1,595 |
| St. Vincent and the Grenadines | 5,146 | - | 5,146 | 348 | 4,798 | 1,797 |
| Grenada | 3,345 | - | 3,345 | - | 3,345 | 2,712 |
| Montserrat | 2,045 | 605 | 1,440 | - | 1,440 | - |
| British Virgin Islands | 2,045 | - | 2,045 | 151 | 1,894 | - |
| Turks and Caicos Islands | 2,045 | 605 | 1,440 | - | 1,440 | - |
| Cayman Islands | 1,945 | 605 | 1,340 | - | 1,340 | - |
| Anguilla | 2,045 | - | 2,045 | 151 | 1,894 | 1,051 |
| Colombia | 27,133 | 3,600 | 23,533 | - | 23,533 | - |
| Venezuela | 21,982 | - | 21,982 | 900 | 21,082 | - |
| Canada | 264,765 | - | 264,765 | 17,458 | 247,307 | - |
| United Kingdom | 214,350 | - | 214,350 | 17,457 | 196,893 | 13,683 |
| Germany | 81,950 | - | 81,950 | 3,139 | 78,811 | 6,625 |
| Italy | 64,101 | 7,083 | 57,018 | - | 57,018 | - |
| China | 41,298 | - | 41,298 | 2,024 | 39,274 | - |
| Haiti | 1,560 | - | 1,560 | 227 | 1,333 | - |
| Mexico | 17,000 | 3,000 | 14,000 | - | 14,000 | - |
| | 903,300 | 16,103 | 887,197 | 54,006 | 833,191 | 59,247 |
| Other contributors | | | | | | |
| France | 58,254 | - | 58,254 | - | 58,254 | - |
| Netherlands | 24,902 | - | 24,902 | - | 24,902 | - |
| | 986,456 | 16,103 | 970,353 | 54,006 | 916,347 | 59,247 |
| Technical assistance allocation | (320,950) | - | (320,950) | - | (320,950) | - |
| Sub-total | \$665,506 | \$16,103 | \$649,403 | \$54,006 | \$595,397 | \$59,247 |

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND

STATEMENT OF CONTRIBUTED RESOURCES...continued

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 3

| Contributors | 2011 | | | | | |
|---|------------------------------|--|---------------------------|--------------------------------|------------------------|---|
| | Total approved ^{1/} | Approved but not yet effective ^{2/} | Total contribution agreed | Amounts not yet made available | Amounts made available | Receivable from members non-negotiable demand notes |
| Sub-total b/fwd | \$665,506 | \$16,103 | \$649,403 | \$54,006 | \$595,397 | \$59,247 |
| Special Development Fund – Other | | | | | | |
| Members | | | | | | |
| Colombia | 5,000 | - | 5,000 | - | 5,000 | - |
| Mexico ^{3/} | 13,067 | - | 13,067 | - | 13,067 | - |
| Venezuela | 17,474 | - | 17,474 | - | 17,474 | - |
| | 35,541 | - | 35,541 | - | 35,541 | - |
| Other contributors | | | | | | |
| Sweden | 3,769 | - | 3,769 | - | 3,769 | - |
| United States of America ^{4/} | 2,210 | - | 2,210 | - | 2,210 | - |
| | 5,979 | - | 5,979 | - | 5,979 | - |
| Sub-total | 41,520 | - | 41,520 | - | 41,520 | - |
| Total – SDF | \$707,026 | \$16,103 | \$690,923 | \$54,006 | \$636,917 | \$59,247 |
| Summary | | | | | | |
| Members | \$617,891 | \$16,103 | \$601,788 | \$54,006 | \$547,782 | \$59,247 |
| Other contributors | 89,135 | - | 89,135 | - | 89,135 | - |
| Total – SDF | \$707,026 | \$16,103 | \$690,923 | \$54,006 | \$636,917 | \$59,247 |

1/Net of repayments

2/Contributions not yet firmly pledged by Governments

3/ Net of appropriation for Technical Assistance of \$2,266,000

4/ Contribution with fixed repayment dates

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND

STATEMENT OF CONTRIBUTED RESOURCES...continued

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 3

| Currencies | 2012 | | | | | |
|---|-----------------------------|--------------------------|--|------------------|------------------|-----------------------------|
| | Amounts made available 2011 | Trans-lation adjust-ment | Draw-downs/ Appro-priations from Capital ^{1/} | Sub-total | Repay-ments | Amounts made available 2012 |
| (a) Special Development Fund – Unified | | | | | | |
| Euros | \$6,628 | \$131 | \$(1,352) | \$5,407 | \$- | \$5,407 |
| Pounds sterling | 13,683 | 604 | - | 14,287 | - | 14,287 |
| United States dollars | 575,086 | - | 43,746 | 618,832 | - | 618,832 |
| Total – December 31 | \$595,397 | \$735 | \$42,394 | \$638,526 | - | \$638,526 |
| (b) Special Development Fund – Other | | | | | | |
| Swedish kroners | \$3,770 | \$222 | \$- | \$3,992 | \$- | \$3,992 |
| United States dollars | 37,750 | - | - | 37,750 | (1,046) | 36,704 |
| Total – December 31 | \$41,520 | \$222 | \$- | \$41,742 | \$(1,046) | \$40,696 |

^{1/}Net of conversion to the United States dollars in accordance with the funding rules of the Unified Special Development Fund..

Maturity structure of repayable contributions outstanding*

| | |
|--------------------------------------|----------------|
| January 1, 2013 to December 31, 2013 | \$573 |
| January 1, 2014 to December 31, 2014 | 590 |
| TOTAL | \$1,163 |

* Relates to SDF (O) contributions by the United States of America.

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND

STATEMENT OF CONTRIBUTED RESOURCES...continued

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 3

| Currencies | 2011 | | | | | |
|---|-----------------------------|--------------------------|--|------------------|------------------|-----------------------------|
| | Amounts made available 2009 | Trans-lation adjust-ment | Draw-downs/ Appro-priations from Capital ^{1/} | Sub-total | Repay-ments | Amounts made available 2010 |
| (c) Special Development Fund – Unified | | | | | | |
| Canadian dollars | \$185 | \$ - | \$(185) | \$ - | \$ - | \$ - |
| Euros | 8,552 | (272) | (1,652) | 6,628 | - | 6,628 |
| Pounds sterling | 9,070 | (27) | 4,640 | 13,683 | - | 13,683 |
| United States dollars | 564,304 | - | 10,782 | 575,086 | - | 575,086 |
| Total – December 31 | \$582,111 | \$(299) | \$13,585 | \$595,397 | \$- | \$595,397 |
| (d) Special Development Fund – Other | | | | | | |
| Swedish kroners | 38,767 | - | - | 38,767 | (1,017) | 37,750 |
| United States dollars | | | | | | |
| Total – December 31 | \$42,641 | \$(104) | \$- | \$42,537 | \$(1,017) | \$41,520 |

^{1/} Net of conversion to the United States dollars in accordance with the funding rules of the Unified Special Development Fund..

Maturity structure of repayable contributions outstanding*

| | |
|--------------------------------------|----------------|
| January 1, 2011 to December 31, 2011 | \$1,017 |
| January 1, 2012 to December 31, 2012 | 1,047 |
| January 1, 2013 to December 31, 2013 | 577 |
| January 1, 2014 to December 31, 2014 | 586 |
| TOTAL | \$3,227 |

* Relates to SDF (O) contributions by Germany and the United States of America only.

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND

STATEMENT OF ACCUMULATED NET INCOME

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 4

| Contributors | 2012 | | | |
|---|-----------------------------|------------------------|--------------------------------------|-----------------------------|
| | Brought forward 2011 | Net income 2012 | Allocation / (Appropriations) | Carried forward 2012 |
| Special Development Fund – Unified | \$41,832 | \$(102) | \$15,000 | \$56,730 |
| Special Development Fund – Other | | | | |
| Members | | | | |
| Colombia | 2,377 | (73) | - | 2,304 |
| Germany | (782) | (102) | - | (884) |
| Mexico | 7,090 | 142 | - | 7,232 |
| Venezuela | 14,995 | 39 | (900) | 14,134 |
| | 23,680 | 6 | (900) | 22,786 |
| Other contributors | | | | |
| Sweden | 2,578 | 238 | - | 2,816 |
| United States of America | 11,085 | 114 | - | 11,199 |
| | 13,663 | 352 | - | 14,015 |
| | 37,343 | 358 | (900) | 36,801 |
| Total SDF | \$79,175 | \$256 | \$14,100 | \$93,531 |
| Summary | | | | |
| Members | \$65,512 | \$(96) | \$15,000 | \$79,516 |
| Other contributors | 13,663 | 352 | (900) | 14,015 |
| Total SDF – December 31 | \$79,175 | \$256 | \$14,100 | \$93,531 |

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND

STATEMENT OF ACCUMULATED NET INCOME...continued

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 4

| Contributors | 2011 | | | Carried forward 2011 |
|---|-----------------------------|------------------------|-----------------------|-----------------------------|
| | Brought forward 2010 | Net income 2011 | Appropriations | |
| Special Development Fund – Unified | \$40,957 | \$875 | \$ - | \$41,832 |
| Special Development Fund – Other | | | | |
| Members | | | | |
| Colombia | \$2,327 | \$50 | \$ - | \$2,377 |
| Germany | (674) | (108) | - | (782) |
| Mexico | 7,082 | 8 | - | 7,090 |
| Venezuela | 15,901 | (6) | (900) | 14,995 |
| | 24,636 | (56) | (900) | 23,680 |
| Other contributors | | | | |
| Sweden | 6,876 | 702 | (5,000) | 2,578 |
| United States of America | 11,028 | 57 | - | 11,085 |
| | 17,904 | 759 | (5,000) | 13,663 |
| | 42,540 | 703 | (5,900) | 37,343 |
| Total SDF | \$83,497 | \$1,578 | \$(5,900) | \$79,175 |
| Summary | | | | |
| Members | \$65,593 | \$819 | \$(900) | \$65,512 |
| Other contributors | 17,904 | 759 | (5,000) | 13,663 |
| Total SDF – December 31 | \$83,497 | \$1,578 | \$(5,900) | \$79,175 |

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2012

(expressed in thousands of United States dollars)

A. Nature of operations and summary of significant accounting policies

Nature of operations

The Special Development Fund (SDF) was established to carry out the special operations of the Caribbean Development Bank (the Bank) by providing resources on concessional terms to assist borrowing members primarily for poverty reduction. Resources are provided by contributions from members and other contributors.

Summary of significant accounting policies

Due to the nature of the SDF, these financial statements have been prepared for the specific purpose of reflecting the sources and applications of member subscriptions and contributions and other development resources. These financial statements are not intended to be a presentation in accordance with International Financial Reporting Standards. These financial statements have been prepared in accordance with the accounting policies outlined below.

Preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from these estimates.

Translation of currencies

The financial statements are expressed in United States dollars solely for the purpose of summarizing the SDF's financial position and the results of its operations.

Assets and liabilities in currencies other than United States dollars are translated into United States dollars either at the par values established for those currencies with the International Monetary Fund, or where no par values are maintained, at rates which have been determined by the Bank to be appropriate for translation. In general, the rates so determined will be the approximate market rates of exchange prevailing at the dates of the financial statements.

Income and expenses in currencies other than United States dollars are translated into United States dollars at applicable rates of exchange on the transaction dates. Any gains or losses arising as a result of differences in rates applied to income and expenses and to assets and liabilities are shown as an exchange gain or loss in the determination of net income for the year.

Debt securities at fair value through profit or loss

All debt securities are in a portfolio designated at fair value through profit or loss and reported at fair market value. Securities are initially recognized at fair value through profit or loss upon initial recognition (which excludes transaction costs) and subsequently re-measured at fair value based on quoted market prices. All related realized and unrealized gains and losses are included in investment income. Interest earned whilst holding securities is also reported as investment income.

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

A. Summary of significant accounting policies...continued

Debt securities at fair value through profit or loss...continued

Regular-way purchases and sales of securities are recognized at trade date, which is the date that the Bank commits to purchase or sells the asset.

Loans

Loans and receivables are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method less any impairment. Interest income is recognized by applying the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

All loans by the Fund are made either from currencies available from members' subscriptions or from currencies borrowed and the principal amounts are repayable to the Fund in the currencies lent. The balances outstanding on loans to members and their agencies are secured by guarantees of the Governments of the member countries in which the loans are made.

The Fund is one of very few lenders of development and structural adjustment loans to Caribbean countries. There is no secondary market for development loans nor does the Fund intend to sell these loans. As a result, the use of market data to arrive at the fair value of loans will not yield any meaningful results.

The Fund does not make provisions for losses on impaired loans as any loss that may occur is taken in profit and loss for that year.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with maturities of three months or less from the date of acquisition, and comprise:-

| | SDF Unified | | SDF Other | |
|----------------|--------------------|-----------------|------------------|-----------------|
| | 2012 | 2011 | 2012 | 2011 |
| Due from banks | \$1,476 | \$ 19 | \$ 361 | \$16,007 |
| Time deposits | 10,065 | 33,627 | 1,878 | 7,541 |
| | <u>\$11,541</u> | <u>\$33,646</u> | <u>\$2,239</u> | <u>\$23,548</u> |

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

A. Summary of significant accounting policies...continued

Technical assistance and grants

Technical assistance and grants for capital projects to borrowing member countries are provided either from grants received from contributors or from other resources specifically allocated for this purpose. The contributions from donors are included in the financial statements from the date of the contribution agreement. Technical assistance is recognized when the project is approved and becomes effective.

Interest income and charges on contributions

Interest income and charges on contributions are recognized in the statement of income and total comprehensive income for all interest-bearing instruments using the effective interest rate method based on the actual purchase price.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Administrative expenses

Administrative expenses incurred by the Bank which cannot be directly charged to individual funds are allocated between the Ordinary Capital Resources, the Other Special Funds and the Special Development Fund in accordance with a method of allocation notified to the Board of Directors.

B. Debt securities at fair value through profit or loss

As part of its overall portfolio management strategy, the Bank invests in Government, agency, supranational and bank obligations, including time deposits and euro commercial paper. The Bank limits its activities of investing in securities to well established dealers and counterparties meeting minimum credit rating standards set by the Bank.

The annualized rate of return on the average investments held during the year, including realized and unrealized gains and losses was 1.26% (2011 – 1.35%). Net realized gain on investments traded during 2012 totalled \$132 (2011 – \$913) while net unrealized losses totalled \$371 (2011 - \$680).

CARIBBEAN DEVELOPMENT BANK

SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

C. Funds

In accordance with the Agreement establishing the Bank (the Agreement), Special Funds Resources comprise the Special Development Fund and Other Special Funds established or administered by the Bank, including technical assistance and other grant resources contributed on a non-reimbursable basis. The Special Development Fund was established to receive contributions or loans which may be used to make or guarantee loans of high developmental priority, with longer maturities, longer deferred commencement of repayment and lower interest rates than those determined by the Bank for its Ordinary Operations. As a result of Rules adopted by the Bank in May 1983 for the Special Development Fund, contributions to the Special Development Fund currently comprise funds made available to the Bank under the rules applicable to the old Special Development Fund (referred to herein as “Other”) and shown separately from funds made available to the Bank from the Unified SDF (referred to herein as “Unified”).

Details of contributions and loan resources to the Special Development Fund are stated at the equivalent in thousands of United States dollars where such contributions and loans have been made in currencies other than United States dollars and are as follows:

(i) Special Development Fund – Unified

| | <u>2012</u> | <u>2011</u> |
|-----------------------------------|------------------|-------------|
| Contributions (as per Schedule 3) | \$638,526 | \$595,397 |

All contributions to the Special Development Fund - Unified are interest-free with no date for repayment.

Effective October 27, 2000, France ceased to be a member of the Bank, but under the Rules of the Special Development Fund, its contributions are non-reimbursable.

(ii) Special Development Fund - Other

| | <u>2012</u> | <u>2011</u> |
|-----------------|----------------|-------------|
| Colombia | \$5,000 | \$5,000 |

The contribution is interest-free and was not repayable before 2000. The agreement with the contributor provides that not less than 5% or more than 10% of the contribution may be used for technical assistance. To date \$39 (2011 - \$39) has been incurred on technical assistance and has been charged against the income from the contribution.

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

C. Funds...continued

(ii) **Special Development Fund – Other ...continued**

| | <u>2012</u> | <u>2011</u> |
|--------------------------------|------------------------|-----------------|
| Mexico | | |
| First contribution | \$7,000 | \$7,000 |
| Less technical assistance | (2,266) | (2,266) |
| | <u>4,734</u> | <u>4,734</u> |
| Second contribution | 5,000 | 5,000 |
| Third contribution | 3,333 | 3,333 |
| | <u>\$13,067</u> | <u>\$13,067</u> |
| Technical assistance resources | <u>\$2,266</u> | <u>\$2,266</u> |

The contributions are interest-free and were not subject to call before 2009.

| | <u>2012</u> | <u>2011</u> |
|---------------------------|------------------------|-----------------|
| Venezuela | | |
| First contribution | \$10,000 | \$10,000 |
| Less technical assistance | (176) | (176) |
| | <u>9,824</u> | <u>9,824</u> |
| Second contribution | 7,650 | 7,650 |
| | <u>\$17,474</u> | <u>\$17,474</u> |

The contributions are interest-free and were not subject to calls before 1999 and 2006, respectively. The agreement with the contributor provides that up to 10% of the first contribution may be used to finance technical assistance on the basis of contingent recovery.

**CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

C. Funds...continued

(ii) Special Development Fund – Other...continued

| | <u>2012</u> | <u>2011</u> |
|--|-----------------|-------------|
| Sweden | 3,992 | \$3,769 |
| The contribution is interest-free with no definite date for repayment. | | |
| | <u>2012</u> | <u>2011</u> |
| United States of America | | |
| First contribution | \$10,000 | \$10,000 |
| Less repayments | (10,000) | (9,508) |
| | - | 492 |
| Second contribution | 12,000 | 12,000 |
| Less repayments | (10,837) | (10,282) |
| | 1,163 | 1,718 |
| | \$1,163 | \$2,210 |

The contributions are subject to interest at the rate of 2% per annum on the amounts outstanding for the first ten years after first disbursement and thereafter at the rate of 3% per annum. The first contribution is repayable over the period 1982 to 2012 and the second contribution over the period 1984 to 2014.

D. Accumulated net income and total comprehensive income for the year

In accordance with the rules of the Special Development Fund, the accumulated net income and total comprehensive income for the current year form part of the contributed resources of the fund and are not available for allocation by the Board of Governors.

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – SPECIAL DEVELOPMENT FUND
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2012

(expressed in thousands of United States dollars)

E. Technical assistance and grant resources

In accordance with paragraph 4.9.2 of the Rules for the Special Development Fund, allocations/appropriations of income and capital of the Fund may be made for the purpose of the Bank's technical assistance and grant operations. The movements (expressed in thousands of United States dollars) during the years ended December 31, 2012 and 2011 were as follows:

| | |
|-------------------------------------|----------------------|
| Balance at January 1, 2011 | 78,571 |
| Allocations for the year | 23,135 |
| Expenditure for the year | <u>(14,332)</u> |
| Balance at December 31, 2011 | 87,374 |
| Allocations for the year | (7,550) |
| Expenditure for the year | <u>(16,204)</u> |
| Balance at December 31, 2012 | <u>63,620</u> |

F. Loans

The average interest rate earned on loans outstanding was 2.30% (2011 -2.32%). There were no impaired loans at December 31, 2012 and 2011.

Caribbean Development Bank – Special Funds Resources
- Other Special Funds

INDEPENDENT AUDITOR'S REPORT

To the Board of Governors Caribbean Development Bank

We have audited the accompanying special purpose financial statements of the **Other Special Funds** of the **Caribbean Development Bank** (the "Bank") for the year ended December 31, 2012, which comprise the statement of financial position as at December 31, 2011 and the statement of income and accumulated income for the year then ended, and a summary of significant accounting policies and other explanatory information. The special purpose financial statements have been prepared on the basis set out in Note A.

Management's responsibility for the special purpose financial statements

Management is responsible for the preparation and presentation of these special purpose financial statements on the basis described in Note A. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of special purpose 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 special purpose financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. International Standards on Auditing require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the special purpose financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the special purpose 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 presentation of the special purpose 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, if any, made by management, as well as evaluating the overall presentation of the special purpose 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 accompanying special purpose financial statements have been prepared, in all material respects, in accordance with the basis set out in Note A.

Chartered Accountants
Bridgetown, Barbados

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES - OTHER SPECIAL FUNDS

STATEMENT OF FINANCIAL POSITION

As of December 31, 2012

(expressed in thousands of United States dollars)

| | <u>2012</u> | <u>2011</u> |
|---|-------------------------|-------------------------|
| Assets | | |
| Cash and cash equivalents – Note A | \$9,530 | \$7,575 |
| Investments (Schedule 1) | 76,010 | 65,809 |
| Loans outstanding (Schedule 2) | 124,095 | 125,083 |
| Receivables – other | | |
| Accounts receivable – Note F | 70,212 | 69,209 |
| Total assets | <u>\$279,847</u> | <u>\$267,676</u> |
| Liabilities and Funds | | |
| Liabilities | | |
| Accounts payable including interfund payables – Note G | \$7,078 | \$8,949 |
| Accrued charges on contributions | 213 | 226 |
| | <u>7,291</u> | <u>9,175</u> |
| Funds | | |
| Contributed resources (Schedule 3) | | |
| Contributions | 76,803 | 79,541 |
| Amounts made available | 76,803 | 79,541 |
| Accumulated net income (Schedule 4) | 51,407 | 48,903 |
| | 128,210 | 128,444 |
| Technical assistance and other grant resources (Schedule 5) | 144,346 | 130,057 |
| Total liabilities and funds | <u>\$279,847</u> | <u>\$267,676</u> |

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

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES – OTHER SPECIAL FUNDS

STATEMENT OF COMPREHENSIVE INCOME AND ACCUMULATED NET INCOME
For the year ended December 31, 2012

(expressed in thousands of United States dollars)

| | 2012 | 2011 |
|--|-----------------|-------------|
| Interest and similar income | | |
| Loans | \$2,677 | \$2,555 |
| Investments and cash balances | 2,178 | 259 |
| | 4,855 | 2,814 |
| Expenses | | |
| Administrative expenses | 1,442 | 1,459 |
| Charges on contributions | 845 | 939 |
| Foreign exchange losses/ (gains) | 64 | (95) |
| Total expenses | 2,351 | 2,303 |
| Total comprehensive income for the year | \$2,504 | \$511 |
| Accumulated net income | | |
| Accumulated net income– beginning of year | \$48,903 | \$48,392 |
| Total comprehensive income for the year | 2,504 | 511 |
| Accumulated net income– end of year | \$51,407 | \$48,903 |

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

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES - OTHER SPECIAL FUNDS

STATEMENT OF CASH FLOWS

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

| | <u>2012</u> | <u>2011</u> |
|---|-----------------|-------------|
| Operating activities | | |
| Total comprehensive income for the year | \$2,504 | \$511 |
| Adjustments for non-cash items | | |
| Net unrealized loss on trading portfolio | 1,772 | 225 |
| Interest income | (4,855) | (2,814) |
| Interest expense | 845 | 939 |
| Disbursements on loans | (2,180) | (11,549) |
| Principal repayment on loans | 3,457 | 4,311 |
| Technical assistance disbursements | (15,651) | (11,413) |
| Net cash used in lending activities | (16,612) | (20,301) |
| Increase in accounts receivable | (1,003) | (5,602) |
| (Decrease)/increase in accounts payable | (1,871) | 106 |
| Total adjustments | (2,874) | (5,496) |
| Interest received | 4,667 | 2,819 |
| Interest paid | (858) | (954) |
| Net (increase)/decrease in debt securities at fair value through profit or loss | (11,953) | 6,334 |
| Net cash used in operating activities | (25,126) | (17,087) |
| Financing activities | | |
| Contributions: | | |
| Increase in contributions for loans | - | 4,924 |
| Repayments | (2,968) | (3,126) |
| Technical assistance contributions | 29,940 | 11,894 |
| Net cash provided by financing activities | 26,972 | 13,692 |
| Net decrease in cash and cash equivalents | (1,846) | (3,395) |
| Net foreign exchange gain/(loss) | 109 | (154) |
| Cash and cash equivalents at beginning of year | 7,575 | 11,124 |
| Cash and cash equivalents at end of year | \$9,530 | \$7,575 |

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

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES - OTHER SPECIAL FUNDS

SUMMARY STATEMENT OF INVESTMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 1

| | 2012 | 2011 |
|---|---------------------|---------------------|
| | Market value | Market value |
| Debt securities at fair value through profit or loss | | |
| Government and Agency obligations | \$31,720 | \$23,879 |
| Supranationals | 10,745 | 7,858 |
| Euro Commercial Paper | - | 4,667 |
| Mutual Funds | 8,576 | 7,923 |
| Managed Funds | 11,847 | 11,002 |
| Equity investments | 12,923 | 10,301 |
| Sub-total | 75,811 | 65,630 |
| Accrued interest | 199 | 179 |
| Total | \$76,010 | \$65,809 |

Residual Term to Contractual Maturity

| | 2012 | 2011 |
|-------------------------------|-----------------|-----------------|
| One month to three months | \$ - | \$6,224 |
| From three months to one year | 4,269 | 4,854 |
| From one year to five years | 32,012 | 20,475 |
| From five years to ten years | 39,729 | 34,256 |
| Total | \$76,010 | \$65,809 |

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES - OTHER SPECIAL FUNDS

SUMMARY STATEMENT OF LOANS

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 2

| Member countries in which loans have been made | 2012 | | | % of Total Loans Outstanding |
|--|--------------------------------|----------------|---------------------------|------------------------------------|
| | Principal repaid to Bank | Undisbursed | Outstanding ^{1/} | |
| Anguilla | 419 | - | 81 | 0.1 |
| Antigua and Barbuda | 3,456 | - | 5,069 | 4.1 |
| Barbados | 18,470 | - | 7,601 | 6.2 |
| Belize | 9,659 | - | - | - |
| British Virgin Islands | 1,943 | - | - | - |
| Cayman Islands | 3,157 | - | - | - |
| Dominica | 15,764 | - | 19,490 | 15.8 |
| Grenada | 7,608 | 4 | 22,903 | 18.6 |
| Guyana | 16,777 | - | 3,973 | 3.2 |
| Jamaica | 37,838 | - | 31,170 | 25.3 |
| Montserrat | 1,249 | - | - | - |
| St. Kitts and Nevis | 4,960 | - | 3,508 | 2.9 |
| St. Lucia | 16,194 | 2,388 | 19,752 | 16.0 |
| St. Vincent and the Grenadines | 13,450 | - | 8,376 | 6.8 |
| Trinidad and Tobago | 2,299 | - | 1,152 | 0.9 |
| Regional | 2,066 | - | 161 | 0.1 |
| Sub-total | 155,309 | 2,392 | 123,236 | 100.0 |
| Accrued interest | - | - | 859 | |
| Total – December 31 | \$155,309 | \$2,392 | \$124,095 | |

^{1/}There were overdue installments of principal of \$540 at December, 2012 (2011 - nil)

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES - OTHER SPECIAL FUNDS

SUMMARY STATEMENT OF LOANS...continued

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 2

| Member countries in which loans have been made | 2011 | | | % of Total Loans Out- standing |
|--|--------------------------------|----------------|---------------------------|--------------------------------------|
| | Principal repaid to Bank | Undisbursed | Outstanding ^{1/} | |
| Anguilla | 394 | - | 106 | 0.1 |
| Antigua and Barbuda | 3,242 | 478 | 4,780 | 3.8 |
| Barbados | 17,965 | 730 | 7,351 | 5.9 |
| Belize | 9,536 | - | - | - |
| British Virgin Islands | 1,934 | - | - | - |
| Cayman Islands | 3,213 | - | - | - |
| Dominica | 15,451 | - | 19,815 | 15.9 |
| Grenada | 7,270 | 285 | 23,193 | 18.7 |
| Guyana | 16,517 | - | 4,214 | 3.4 |
| Jamaica | 37,702 | - | 31,261 | 25.1 |
| Montserrat | 1,243 | - | - | - |
| St. Kitts and Nevis | 4,747 | 95 | 3,682 | 3.0 |
| St. Lucia | 15,371 | 3,296 | 19,682 | 15.8 |
| St. Vincent and the Grenadines | 12,922 | 119 | 8,748 | 7.0 |
| Trinidad and Tobago | 2,147 | - | 1,236 | 1.0 |
| Regional | 1,905 | 37 | 324 | 0.3 |
| Sub-total | 151,559 | 5,040 | 124,392 | 100.0 |
| Accrued interest | - | - | 691 | |
| Total – December 31 | \$151,559 | \$5,040 | \$125,083 | |

^{1/}There were no overdue installments of principal at December, 2010 (2009 - nil)

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES - OTHER SPECIAL FUNDS

SUMMARY STATEMENT OF LOANS...continued

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 2

| Analysis by Special Fund | 2012 | | | % of Total Loans Outstanding |
|---------------------------------------|--------------------------|----------------|---------------------------|------------------------------|
| | Principal repaid to Bank | Undisbursed | Outstanding ^{1/} | |
| Members | | | | |
| Trinidad and Tobago | 1,302 | - | 3 | 0.0 |
| Other contributors | | | | |
| Caribbean Development Bank | 15,533 | 2,207 | 58,550 | 47.5 |
| Nigeria | 5,482 | - | 4,153 | 3.4 |
| United States of America | 92,926 | - | 81 | 0.1 |
| Inter-American Development Bank | 18,391 | 185 | 39,358 | 31.9 |
| European Union | 8,080 | - | 2,686 | 2.2 |
| International Development Association | 13,595 | - | 18,405 | 14.9 |
| Sub-total | 155,309 | 2,392 | 123,236 | 100.0 |
| Accrued interest | - | - | 859 | |
| Total – December 31 | \$155,309 | \$2,392 | \$124,095 | |

^{1/} There were overdue installments of principal of \$540 at December 31, 2012 (2011 – nil).

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES - OTHER SPECIAL FUNDS

SUMMARY STATEMENT OF LOANS...continued

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 2

| Analysis by Special Fund | 2011 | | | % of Total Loans Outstanding |
|---------------------------------------|--------------------------|----------------|---------------------------|------------------------------|
| | Principal repaid to Bank | Undisbursed | Outstanding ^{1/} | |
| Members | | | | |
| Trinidad and Tobago | 1,340 | - | 3 | - |
| Other contributors | | | | |
| Caribbean Development Bank | 14,484 | 3,543 | 58,022 | 46.6 |
| Nigeria | 5,074 | - | 4,562 | 3.7 |
| United States of America | 92,901 | - | 106 | 0.1 |
| Inter-American Development Bank | 17,317 | 1,083 | 39,707 | 31.9 |
| European Union | 7,677 | 37 | 2,881 | 2.3 |
| International Development Association | 12,766 | 377 | 19,111 | 15.4 |
| Sub-total | 151,559 | 5,040 | 124,392 | 100.0 |
| Accrued interest | - | - | 691 | |
| Total – December 31 | \$151,559 | \$5,040 | \$125,083 | |

^{1/}There are no overdue installments of principal at December, 2010 (2009 - nil)

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES - OTHER SPECIAL FUNDS

SUMMARY STATEMENT OF LOANS...continued

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 2

| Currencies receivable | 2012 | | | | | | |
|-------------------------------|-----------------------------------|-------------------------------------|---------------------------|--------------------|------------------|------------------|-----------------------------------|
| | Loans out- standing 2011 | Trans- lation adjust- ment | Net interest earned | Disburse- ments | Sub- total | Repay- ments | Loans out- standing 2012 |
| Euros | \$2,881 | \$57 | - | - | \$2,938 | \$ (252) | 2,686 |
| Special Drawing Rights | 15,570 | 64 | - | - | 15,634 | (594) | 15,040 |
| United States dollars | 105,941 | - | - | 2,180 | 108,121 | (2,611) | 105,510 |
| Sub-total | 124,392 | 121 | - | 2,180 | 126,693 | (3,457) | 123,236 |
| Accrued interest ¹ | 691 | - | 168 | - | 859 | - | 859 |
| Total – December 31 | \$125,083 | \$121 | \$168 | \$2,180 | \$127,552 | \$(3,457) | \$124,095 |

Maturity structure of loans outstanding

| | |
|--------------------------------------|------------------|
| January 1, 2013 to December 31, 2013 | 4,631 |
| January 1, 2014 to December 31, 2014 | 5,424 |
| January 1, 2015 to December 31, 2015 | 6,494 |
| January 1, 2016 to December 31, 2016 | 6,668 |
| January 1, 2017 to December 31, 2017 | 6,905 |
| January 1, 2018 to December 31, 2022 | 34,569 |
| January 1, 2023 to December 31, 2027 | 30,641 |
| January 1, 2028 to December 31, 2032 | 19,896 |
| January 1, 2033 to December 31, 2037 | 6,910 |
| January 1, 2038 to December 31, 2046 | 1,957 |
| Total | \$124,095 |

^{1/} Relates to amounts disbursed and outstanding

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES - OTHER SPECIAL FUNDS

SUMMARY STATEMENT OF LOANS...continued

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 2

| Currencies receivable | 2011 | | | | | | |
|-------------------------------|-----------------------------------|-------------------------------------|---------------------------|--------------------|------------------|------------------|-----------------------------------|
| | Loans out- standing 2010 | Trans- lation adjust- ment | Net interest earned | Disburse- ments | Sub- total | Repay- ments | Loans out- standing 2011 |
| Euros | \$ 3,235 | \$(107) | \$ - | \$ - | \$3,128 | \$ (247) | \$2,881 |
| Special Drawing Rights | 16,527 | (103) | - | - | 16,424 | (854) | 15,570 |
| United States dollars | 97,602 | - | - | 11,549 | 109,151 | (3,210) | 105,941 |
| Sub-total | 117,364 | (210) | - | 11,549 | 128,703 | (4,311) | 124,392 |
| Accrued interest ¹ | 646 | - | 45 | - | 691 | - | 691 |
| Total – December 31 | \$118,010 | \$(210) | \$45 | \$11,549 | \$129,394 | \$(4,311) | \$125,083 |

Maturity structure of loans outstanding

| | |
|--------------------------------------|------------------|
| January 1, 2011 to December 31, 2011 | \$4,622 |
| January 1, 2012 to December 31, 2012 | 3,936 |
| January 1, 2013 to December 31, 2013 | 5,268 |
| January 1, 2014 to December 31, 2014 | 6,338 |
| January 1, 2015 to December 31, 2019 | 6,512 |
| January 1, 2020 to December 31, 2024 | 33,773 |
| January 1, 2025 to December 31, 2029 | 31,538 |
| January 1, 2030 to December 31, 2034 | 21,491 |
| January 1, 2035 to December 31, 2039 | 11,605 |
| January 1, 2040 to December 31, 2046 | - |
| | <u>\$125,083</u> |

^{1/} Relates to amounts disbursed and outstanding

**CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES - OTHER SPECIAL FUNDS**

SUMMARY STATEMENT OF CONTRIBUTIONS

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 3

| Contributors | Contributions | |
|---|---------------------------|-------------------------------|
| | Total^{1/} | Amounts made available |
| Members | | |
| Canada | \$7,011 | \$7,011 |
| Other contributors | | |
| Inter-American Development Bank ^{1/} | 40,427 | 40,427 |
| European Investment Bank ^{1/} | 1,319 | 1,319 |
| United States of America | 4,456 | 4,456 |
| European Union | 3,932 | 3,932 |
| International Development Association | 19,658 | 19,658 |
| | 69,792 | 69,792 |
| Total – December 31 | \$76,803 | \$76,803 |

^{1/}Net of cancellations and repayments

Maturity structure of repayable contributions outstanding

| | |
|--------------------------------------|-----------------|
| January 1, 2013 to December 31, 2013 | \$ 3,666 |
| January 1, 2014 to December 31, 2014 | 3,273 |
| January 1, 2015 to December 31, 2015 | 3,192 |
| January 1, 2016 to December 31, 2016 | 4,433 |
| January 1, 2017 to December 31, 2017 | 3,468 |
| January 1, 2018 to December 31, 2022 | 14,843 |
| January 1, 2023 to December 31, 2027 | 12,273 |
| January 1, 2028 to December 31, 2032 | 10,646 |
| January 1, 2033 to December 31, 2037 | 7,540 |
| January 1, 2038 to December 31, 2047 | 13,469 |
| Total | \$76,803 |

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES - OTHER SPECIAL FUNDS

SUMMARY STATEMENT OF CONTRIBUTIONS...continued

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

| Contributors | 2011 | | |
|---|---------------------|--------------------------------|------------------------|
| | Total ^{1/} | Amounts not yet made available | Amounts made available |
| Members | | | |
| Canada | \$6,959 | - | \$6,959 |
| Other contributors | | | |
| Inter-American Development Bank ^{1/} | 41,053 | - | 41,053 |
| European Investment Bank ^{1/} | 1,293 | - | 1,293 |
| United States of America | 5,416 | - | 5,416 |
| European Union | 4,232 | - | 4,232 |
| International Development Association | 20,588 | - | 20,588 |
| | 72,582 | - | 72,582 |
| Total – December 31 | \$79,541 | - | \$79,541 |

^{1/}Net of cancellations and repayments

Maturity structure of repayable contributions outstanding

| | |
|--------------------------------------|-----------------|
| | \$ 3,290 |
| January 1, 2011 to December 31, 2011 | 3,322 |
| January 1, 2012 to December 31, 2012 | 2,930 |
| January 1, 2013 to December 31, 2013 | 2,850 |
| January 1, 2013 to December 31, 2018 | 3,100 |
| January 1, 2018 to December 31, 2023 | 17,007 |
| January 1, 2023 to December 31, 2028 | 12,374 |
| January 1, 2028 to December 31, 2033 | 11,168 |
| January 1, 2033 to December 31, 2045 | 23,500 |
| Total | \$79,541 |

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES - OTHER SPECIAL FUNDS

SUMMARY STATEMENT OF CONTRIBUTIONS...continued

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 3

| Currencies repayable | 2012 | | | | | |
|-----------------------------|--|-------------------------------|--|------------------|-------------------|--|
| | Contributions made available 2011 | Translation adjustment | Draw-downs/ Appropriations from Capital | Sub-total | Repayments | Contributions made available 2012 |
| Canadian dollars | \$ 2,134 | \$ 56 | \$ - | \$ 2,190 | \$ (51) | \$ 2,139 |
| Euros | 5,526 | 108 | - | 5,634 | (383) | 5,251 |
| Japanese yen | 166 | (17) | - | 149 | (44) | 105 |
| Pounds sterling | 171 | 8 | - | 179 | (51) | 128 |
| Special Drawing Rights | 17,088 | 71 | - | 17,159 | (806) | 16,353 |
| Swedish kroners | 69 | 4 | - | 73 | (21) | 52 |
| United States dollars | 54,387 | - | - | 54,387 | (1,612) | 52,775 |
| Total – December 31 | \$79,541 | \$230 | \$ - | \$79,771 | \$(2,968) | \$76,803 |

| Currencies repayable | 2011 | | | | | |
|-----------------------------|--|-------------------------------|--|------------------|-------------------|--|
| | Contributions made available 2010 | Translation adjustment | Draw-downs/ Appropriations from Capital | Sub-total | Repayments | Contributions made available 2011 |
| Canadian dollars | \$2,237 | \$(53) | \$ - | \$2,184 | \$ (50) | \$2,134 |
| Euros | 6,102 | (205) | - | 5,897 | (371) | 5,526 |
| Japanese yen | 203 | 10 | - | 213 | (47) | 166 |
| Pounds sterling | 221 | (1) | - | 220 | (49) | 171 |
| Special Drawing Rights | 18,004 | (113) | - | 17,891 | (803) | 17,088 |
| Swedish kroners | 91 | (2) | - | 89 | (20) | 69 |
| United States dollars | 51,249 | - | 4,924 | 56,173 | (1,786) | 54,387 |
| Total – December 31 | \$78,107 | \$(364) | \$ 4,924 | \$82,667 | \$(3,126) | \$79,541 |

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES - OTHER SPECIAL FUNDS

STATEMENT OF ACCUMULATED INCOME

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 4

| | 2012 | | | |
|---------------------------------------|-------------------------------|-------------------------------|-----------------------|-----------------------------|
| | Accumulated Net Income | | | |
| Contributors | Brought forward 2012 | Net Income/(Loss) 2012 | Appropriations | Carried forward 2013 |
| General Funds | \$37,838 | \$2,945 | \$- | \$40,783 |
| European Investment Bank | (783) | (161) | - | (944) |
| European Union | 2,541 | 37 | - | 2,578 |
| Inter-American Development Bank | 482 | (143) | - | 339 |
| International Development Association | 222 | 6 | - | 228 |
| Nigeria | 6,124 | (9) | - | 6,115 |
| United States of America | 2,479 | (171) | - | 2,308 |
| Total – December 31 | \$48,903 | \$2,504 | \$- | \$51,407 |

| | 2011 | | | |
|---------------------------------------|-------------------------------|-------------------------------|-----------------------|-----------------------------|
| | Accumulated Net Income | | | |
| Contributors | Brought forward 2010 | Net Income/(Loss) 2011 | Appropriations | Carried forward 2011 |
| General Funds | \$37,073 | \$765 | \$- | \$37,838 |
| European Investment Bank | (677) | (106) | - | (783) |
| European Union | 2,531 | 10 | - | 2,541 |
| Inter-American Development Bank | 522 | (40) | - | 482 |
| International Development Association | 229 | (7) | - | 222 |
| Nigeria | 6,119 | 5 | - | 6,124 |
| United States of America | 2,595 | (116) | - | 2,479 |
| Total – December 31 | \$48,392 | 511 | \$- | \$48,903 |

**CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES - OTHER SPECIAL FUNDS**

**STATEMENT OF TECHNICAL ASSISTANCE AND OTHER GRANT RESOURCES
For the year ended December 31, 2012**

(expressed in thousands of United States dollars)

SCHEDULE 5

| Contributors | 2012 | | | |
|---------------------------------|---------------------------|-------------------------------|-------------------------|------------------------------|
| | Contributors | | | |
| | Total^{1/} | Amounts made available | Amounts utilized | Net Amounts available |
| Members | | | | |
| Canada | \$49,657 | \$52,890 | \$36,484 | \$16,406 |
| United Kingdom | 22,209 | 22,209 | 9,942 | 12,267 |
| Italy | 522 | 522 | 252 | 270 |
| | 72,388 | 75,621 | 46,678 | 28,943 |
| Other contributors | | | | |
| Caribbean Development Bank | 223,064 | 223,064 | 110,797 | 112,267 |
| United States of America | 1,407 | 1,407 | 1,407 | - |
| Inter-American Development Bank | 3,057 | 3,057 | 2,744 | 313 |
| China | 677 | 677 | 198 | 479 |
| Venezuela | 587 | 587 | - | 587 |
| Nigeria | 193 | 193 | 147 | 46 |
| European Commission | 1,711 | 1,711 | - | 1,711 |
| Sub-total | 230,696 | 230,696 | 115,293 | 115,403 |
| Total – December 31 | \$303,084 | \$303,125 | \$161,971 | \$144,346 |
| Summary | | | | |
| Basic Needs Trust Fund | \$149,750 | \$149,750 | \$78,881 | \$70,869 |
| Other resources | 153,334 | 153,375 | 83,090 | 73,477 |
| Total – December 31 | \$303,084 | \$303,125 | \$161,971 | \$144,346 |

^{1/}Net of cancellation and resources fully utilized and expended in non-reimbursable operations.

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES - OTHER SPECIAL FUNDS

STATEMENT OF TECHNICAL ASSISTANCE AND OTHER GRANT RESOURCES
For the year ended December 31, 2012

(expressed in thousands of United States dollars)

SCHEDULE 5

| Contributors | 2011 | | | Net Amounts available |
|---------------------------------|--------------------------------|-----------------------------------|-----------------------------|--------------------------------------|
| | Total ^{1/} | Amounts made available | Amounts utilized | |
| Members | | | | |
| Canada | \$39,897 | \$39,897 | \$33,833 | \$6,064 |
| United Kingdom | 18,658 | 18,658 | 6,333 | 12,325 |
| Italy | 522 | 522 | 252 | 270 |
| | 59,077 | 59,077 | 40,418 | 18,659 |
| Other contributors | | | | |
| Caribbean Development Bank | 211,560 | 211,560 | 101,671 | 109,889 |
| United States of America | 1,407 | 1,407 | 1,407 | - |
| Inter-American Development Bank | 2,876 | 2,876 | 2,479 | 397 |
| China | 677 | 677 | 198 | 479 |
| Venezuela | 587 | 587 | - | 587 |
| Nigeria | 193 | 193 | 147 | 46 |
| Sub-total | 217,300 | 217,300 | 105,902 | 111,398 |
| Total – December 31 | \$276,377 | \$276,377 | \$146,320 | \$130,057 |
| Summary | | | | |
| Basic Needs Trust Fund | \$138,250 | \$138,250 | \$70,478 | \$67,772 |
| Other resources | 138,127 | 138,127 | 75,842 | 62,285 |
| Total – December 31 | \$276,377 | \$276,377 | \$146,320 | \$130,057 |

^{1/}Net of cancellation and resources fully utilized and expended in non-reimbursable operations.

CARIBBEAN DEVELOPMENT BANK

SPECIAL FUNDS RESOURCES - OTHER SPECIAL FUNDS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

A. Nature of operations and summary of significant accounting policies

Nature of operations

The Other Special Fund Group (“OSF” or “the Fund”) was established to carry out the special operations of the Caribbean Development Bank (the “Bank”) by providing resources on concessional terms to assist borrowing members primarily for poverty reduction. Resources are provided by contributions from members and other contributors.

Summary of significant accounting policies

Due to the nature of the OSF, these financial statements have been prepared for the specific purpose of reflecting the sources and applications of member subscriptions and contributions and other development resources. These financial statements are not intended to be a presentation in accordance with International Financial Reporting Standards. These special purpose financial statements have been prepared in accordance with the accounting policies outlined below.

Preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from these estimates.

Translation of currencies

The financial statements are expressed in United States dollars solely for the purpose of summarizing the OSF’s financial position and the results of its operations.

Assets and liabilities in currencies other than United States dollars are translated into United States dollars either at the par values established for those currencies with the International Monetary Fund, or where no par values are maintained, at rates which have been determined by the Bank to be appropriate for translation. In general, the rates so determined will be the approximate market rates of exchange prevailing at the date of the financial statements.

Income and expenses in currencies other than United States dollars are translated into United States dollars at applicable rates of exchange on the transaction dates. This practice approximates the application of average rates in effect during the year. Any gains or losses arising as a result of differences in rates applied to income and expenses and to assets and liabilities are shown as an exchange gain or loss in the determination of net income for the year.

CARIBBEAN DEVELOPMENT BANK

SPECIAL FUNDS RESOURCES - OTHER SPECIAL FUNDS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

A. Summary of significant accounting policies...continued

Investments

All investment securities are in a portfolio, are designated at fair value through profit or loss and reported at fair market value. Securities are initially recognized at fair value (which excludes transaction costs) and subsequently re-measured at fair value based on quoted market prices. All related realized and unrealized gains and losses are included in investment income. Interest earned whilst holding securities is reported as interest income.

Regular-way purchases and sales of securities are recognized at trade date, which is the date that the Bank commits to purchase or sells the asset.

Equity investments are assessed for impairment annually. The impairment assessment is based on the net book value of the underlying asset and adjusted if the carrying value is less than the Fund's proportionate share of net assets. Impairment losses are recorded in income from investments and cash balances in the statement of comprehensive income. Amounts distributed to the Fund are recorded as a return on investment until such investments are written off and are subsequently recorded as income.

Loans

Loans and receivables are non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

All loans by the Fund are made either from currencies available from members' subscriptions or from currencies borrowed and the principal amounts are payable to the Fund in the currencies lent. The balances outstanding on loans to members and their agencies are secured by guarantees of the Governments of the member countries in which the loans are made.

The Fund is one of very few lenders of development and structural adjustment loans to Caribbean countries. There is no secondary market for development loans nor does the Fund intend to sell these loans. As a result, the use of market data to arrive at the fair value of loans will not yield any meaningful results.

The Fund does not make provisions for losses on impaired loans as any loss that may occur is taken in profit and loss for that year.

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES - OTHER SPECIAL FUNDS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

A. Summary of significant accounting policies...continued

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in banks and other depositories and time deposits with less than 90 days maturity from the date of acquisition.

| | <u>2012</u> | <u>2011</u> |
|---------------------------|-----------------------|----------------|
| Due from banks | \$5,596 | \$3,341 |
| Time deposits | 3,934 | 4,234 |
| Cash and cash equivalents | <u>\$9,530</u> | <u>\$7,575</u> |

Technical assistance and grants

Technical assistance and grants for capital projects to borrowing member countries are provided either from non-reimbursable grants received from contributors or from other resources specifically allocated for this purpose. The contributions from donors are included in the financial statements from the date of the contribution agreement. Technical assistance is recognized when the project is approved and becomes effective.

Interest income and charges on contributions

Interest income and charges on contributions are recognized in the statement of income and accumulated income for all interest-bearing instruments using the effective interest method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Administrative expenses

Administrative expenses incurred by the Bank which cannot be directly charged to individual funds are allocated between the Ordinary Capital Resources, the Other Special Funds and the Special Development Fund in accordance with a method of allocation which is indicated to the Board of Directors.

CARIBBEAN DEVELOPMENT BANK

SPECIAL FUNDS RESOURCES - OTHER SPECIAL FUNDS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

B. Investments

As part of its overall portfolio management strategy, the Fund invests in Government agency, supranational and bank obligations, including time deposits. The Fund limits its activities of investing in securities to well established dealers and counterparties meeting minimum credit rating standards set by the Fund.

The annualized rate of return on the average investments held during the year, including realized and unrealized gains and losses was 3.55% (2011 – 0.62%). Net realized losses on investments amounted to \$147 (2011 – \$4), while net unrealized gains amounted to \$1,755 (2011 – losses of \$225).

C. Funds

In accordance with the Agreement establishing the Bank (the Agreement), Special Funds Resources comprise the Special Development Fund and Other Special Funds established or administered by the Bank, including technical assistance and other grant resources contributed on a non-reimbursable basis. For the purposes of these financial statements, the Other Special Funds have been presented separately from the Special Development Fund. The Other Special Funds are established in accordance with agreements between the Bank and the contributors and are for specific types of projects as agreed between the Bank and the contributors. In accordance with the Agreement, each Special Fund, its resources and accounts are kept entirely separate from other Special Funds, their resources and accounts.

For the purpose of presentation in these financial statements, the financial statements of each of the Other Special Funds have been aggregated.

Technical assistance and other grant resources include resources for the Basic Needs Trust Fund and other resources established for specific purposes as determined between the Bank and contributors.

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES - OTHER SPECIAL FUNDS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

C. Funds...continued

Details of contributions, loans and technical assistance resources of the Other Special Funds are stated at the equivalent in thousands of United States dollars where such contributions, loans and technical assistance grants have been made in currencies other than United States dollars and are as follows:

| | <u>2012</u> | <u>2011</u> |
|--|-----------------|-------------|
| Canada | | |
| Agricultural ¹ | \$ 7,011 | \$6,959 |
| Technical assistance resources | <u>52,890</u> | 39,897 |
| Italy | | |
| Technical assistance resources | <u>\$522</u> | \$522 |
| China | | |
| Technical assistance resources | <u>\$677</u> | \$677 |
| Venezuela | | |
| Technical assistance resources | <u>\$587</u> | \$587 |
| Nigeria | | |
| Technical assistance resources | <u>\$193</u> | \$ 193 |
| United Kingdom | | |
| Technical assistance resources | <u>\$22,209</u> | \$18,658 |
| Inter-American Development Bank | | |
| 975/SF-RG | \$14,212 | 14,211 |
| Less repayments | <u>(4,365)</u> | (3,946) |
| | <u>9,847</u> | 10,265 |
| Second Global Loan | 5,077 | 5,074 |
| Less repayments | <u>(4,420)</u> | (4,209) |
| | <u>657</u> | 865 |
| 1108/SF-RG Global Credit | <u>20,000</u> | 20,000 |
| 1637/SF-RG Credit | <u>9,923</u> | 9,923 |
| | <u>\$40,427</u> | \$41,053 |
| Technical assistance resources | <u>\$3,057</u> | \$2,876 |

¹ The contributions are interest-free with no date for repayment

**CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES - OTHER SPECIAL FUNDS**

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

C. Funds...continued

The second global loan was subject to interest at the rate of 1% per annum until 1994 and thereafter at 2% per annum and is repayable during the period 1995 to 2015.

Loan 975/SF-RG is subject to interest at the rate of 1% per annum until 2006 and thereafter at 2% per annum and is repayable during the period 2003 to 2036.

Global Credit 1108/SF-RG was subject to interest at the rate of 1% for the first ten years and 2% thereafter and is repayable during the period 2012 to 2042.

Grenada Reconstruction 1637/SF-RG is subject to interest at the rate of 1% per annum until 2015 and thereafter at 2% per annum and is repayable during the period 2016 to 2045.

The loans are subject to a credit fee of 0.5% per annum on any undrawn balance.

| | <u>2012</u> | <u>2011</u> |
|---------------------------------|----------------|-------------|
| European Investment Bank | | |
| Global loan II – B | \$1,319 | \$1,293 |

Repayable in full in a single installment on September 30, 2016.

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES - OTHER SPECIAL FUNDS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

C. Funds...continued

| | 2012 | | 2011 | | Due Dates |
|---------------------------------|----------------|----------------|-------------|---------|------------------|
| United States of America | | | | | |
| Contributions | | | | | |
| Agricultural | \$7,052 | | \$7,052 | | 1988-2018 |
| Less repayments | (5,267) | 1,785 | (4,973) | \$2,079 | |
| Employment Investment Promotion | 6,732 | | 6,732 | | 1990-2000 |
| Less repayments | (4,474) | 2,258 | (4,209) | 2,523 | |
| Housing | 8,400 | | 8,400 | | 1983-2012 |
| Less repayments | (7,987) | 413 | (7,586) | 814 | |
| | | | | | |
| | | \$4,456 | | \$5,416 | |
| Technical Assistance resources | | \$1,407 | | \$1,407 | |

All contributions are subject to interest at the rate of 2% per annum on the amount outstanding for the first ten years after first disbursement and thereafter, at the rate of 3% per annum.

| | 2012 | | 2011 | |
|-----------------------|----------------|----------------|-------------|---------|
| European Union | | | | |
| First Contribution | \$7,715 | | \$7,566 | |
| Less repayments | (5,153) | \$2,562 | (4,788) | \$2,778 |
| Second Contribution | 3,270 | | 3,207 | |
| Less repayments | (1,900) | 1,370 | (1,753) | 1,454 |
| | | | | |
| | | \$3,932 | | \$4,232 |

The contributions are subject to interest at the rate of 1% per annum. The first contribution is repayable during the period 1992 to 2021 and the second contribution is repayable over the period 1994 to 2024.

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES - OTHER SPECIAL FUNDS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

C. Funds...continued

International Development Association

| | <u>2012</u> | | <u>2011</u> | | <u>Due dates</u> |
|---------------------|----------------|-----------------|-------------|----------|------------------|
| Credit No. 960/CRG | \$6,480 | | \$6,480 | | 1990-2029 |
| Less repayments | (3,175) | 3,305 | (2,981) | \$3,499 | |
| Credit No. 1364/CRG | 8,337 | | 8,302 | | 1993-2033 |
| Less repayments | (3,210) | 5,127 | (2,947) | 5,355 | |
| Credit No. 1785/CRG | 7,121 | | 7,091 | | 1997-2030 |
| Less repayments | (1,887) | 5,234 | (1,666) | 5,425 | |
| Credit No. 2135/CRG | 8,560 | | 8,525 | | 2000-2030 |
| Less repayments | (2,568) | 5,992 | (2,216) | 6,309 | |
| | | \$19,658 | | \$20,588 | |

The credits are subject to a service charge of 0.75% per annum on amounts outstanding. In addition, the credits totaling \$43,338 (2011 - \$43,159) representing \$28,200 Special Drawing Rights are subject to a commitment fee not exceeding 0.5% per annum on amounts eligible for withdrawal but remain undrawn.

| | <u>2012</u> | | <u>2011</u> | |
|-----------------------------------|-------------|------------------|-------------|-----------|
| Caribbean Development Bank | | | | |
| Technical assistance resources | | \$223,064 | | \$211,560 |

CARIBBEAN DEVELOPMENT BANK
SPECIAL FUNDS RESOURCES - OTHER SPECIAL FUNDS

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

For the year ended December 31, 2012

(expressed in thousands of United States dollars)

D. Total accumulated income and total comprehensive income for the year

It is normal for the Board of Governors to determine the disposition of the accumulated net income and net income for the current year of each of the Other Special Funds, subject to any rules and regulations governing each Fund and any agreement relating thereto.

E. Loans

The average interest rate earned on loans outstanding was 2.16% (2011 – 2.16%). There were no impaired loans at December 31, 2012 and 2011.

F. Accounts receivable

| | <u>2012</u> | <u>2011</u> |
|---------------------|-----------------|-------------|
| Accounts receivable | \$70,212 | \$69,209 |

G. Accounts payable including interfund payables

| | <u>2012</u> | <u>2011</u> |
|--------------------|-----------------------|----------------|
| Accounts payable | \$5,542 | \$3,173 |
| Interfund payables | 1,492 | 5,776 |
| Total | <u>\$7,034</u> | <u>\$8,949</u> |