

RISE TO THE CHALLENGE



2020

CENTRAL BANK OF BARBADOS
ANNUAL REPORT

RISING TO THE CHALLENGE



About The Cover

In April 2020, the COVID-19 pandemic led to a national shutdown as the island sought to prevent the spread of the disease. While many remained at home, our essential workers, among them Central Bank of Barbados staff, continued to work to ensure that everyone was safe and healthy, and that our country would continue to function.

The cover of our 2020 Annual Report features the limited-edition one-dollar circulation coin issued by the Bank as a tribute to Barbados' essential workers. The coin carries the same design as the regular one-dollar coin, but the flying fish and sea, now painted blue, glow in the dark, representing these essential workers – ordinary Barbadians, who, when called upon during a dark time, stood up, stood out, and shone.

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CENTRAL BANK OF BARBADOS

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March 31, 2021

The Hon. Mia Amor Mottley, Q.C., M.P.
Prime Minister, Minister of Finance,
Economic Affairs and Investment
Government Headquarters
Bay Street
ST. MICHAEL

Dear Prime Minister:

In accordance with Section 68(3) of the Central Bank of Barbados Act, 2020-30, I have the honour on behalf of the Board of Directors to submit to you in your capacity as Minister of Finance, the Bank's Annual Accounts for the year ended December 31, 2020 as certified by the External Auditors, together with the Report on the Bank's operations during 2020.

Sincerely,

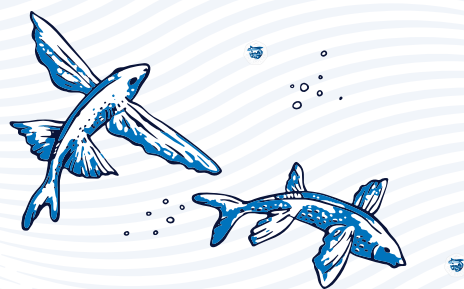
A handwritten signature in black ink, appearing to be "C. Haynes", written over a light blue circular stamp.

Cleviston L. Haynes
Governor

Encs.

centralbank.org.bb

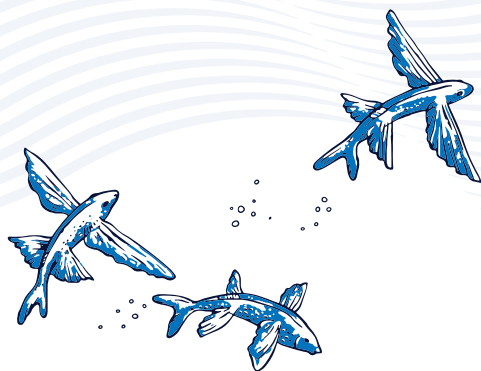






The Central Bank of Barbados was established by an Act of Parliament in 1972. In December 2020, a new Central Bank of Barbados Act (2020-30) was passed in the Parliament of Barbados, which prescribes two objectives for the organisation. The primary objective is to maintain the value of the Barbados currency and the secondary objective is to promote financial stability that is conducive to the orderly and sustained economic development of Barbados.

In the pursuit of these objectives, the Bank is authorised to execute, as provided for under section 13 of the new Act, a range of functions, including, *inter alia*, the formulation and execution of monetary policy, holding and management of the official international reserves, act as lender of last resort, procure economic and financial statistics, undertake microprudential and macroprudential supervision of the payments and wider financial system and serve as fiscal agent and financial advisor to the Government.



The new Act primarily intends to strengthen the Bank's internal governance, operational autonomy and to ensure compliance with internationally recognised accounting standards. Other key revisions included in the new Act are:

- (1) an increase in the Bank's authorised capital and the method by which paid-up capital is preserved;
- (2) the improvement in the degree of operational autonomy in the Bank's dealings with financial institutions;
- (3) limits to the monetary financing of the Government;
- (4) the prohibition of the Bank's involvement in certain quasi-fiscal activities; and
- (5) greater authority to collect timely economic and financial statistics.

MISSION STATEMENT

To foster an economic and financial environment conducive to sustainable economic growth and development.

OUR VISION

To create and maintain an institution of world class excellence.

OUR VALUES



Leadership and Innovation

We will nurture creativity, seek out new ideas, embrace change and execute our tasks efficiently and on a timely basis. We will listen to, inspire and motivate our stakeholders. We will promote critical and strategic thinking and nimbleness to achieve high performance.



Governance

We commit to adhere to the structures and policies approved by the Board in order to inform, direct and monitor the organisation's activities towards the achievement of our objectives.



Integrity and Transparency

We acknowledge that our performance, success and reputation hinge on the highest standards of ethical behaviour. We, therefore, promise to provide open communication and to be consistent in our application of policies across the organisation. We will always practise honesty and fiscal responsibility in all of our undertakings as a way of building trust among our stakeholders and garnering public support for our policy initiatives.



Accountability

We will, in all our actions, demonstrate timeliness, openness and accuracy with our work, information and data. We will ensure the safety and security of all assets and resources under our responsibility, so as to engender the confidence of all our constituents.



Respect and Empathy

We will recognise everyone's value and worth in the workplace, genuinely listening to and considering their points of view. We will be sensitive to each other's thoughts and experiences.



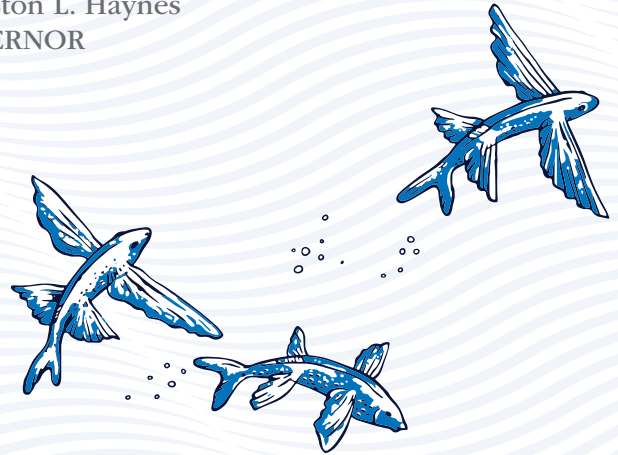
Team Spiritedness

We commit to engendering a caring spirit in the workplace where staff are supportive of and collaborate with each other to achieve objectives. We will encourage enthusiasm in all our endeavours and bring a positive attitude to our Mission, Vision and Values.



GOVERNOR'S MESSAGE

Cleviston L. Haynes
GOVERNOR



The year 2020 was extraordinary, the result of the severity and persistence of the COVID-19 pandemic. The domestic economy experienced a double-digit contraction in output, reflecting an unprecedented disruption to tourism activity, weak private sector investment and reduced consumer spending. Curfews and business closures aggravated the economic loss during the second quarter and limited international travel prevented a rapid recovery in the latter part of the year. Unemployment was elevated and government revenues fell sharply, forcing Government to alter its fiscal stance by shifting its primary balance target for FY 2020/21 from a surplus of 6 percent to a deficit of 1 percent of GDP. However, budgetary support from international financial institutions enabled the gross international reserves to rise to \$2.7 billion, or approximately 40 weeks of imports.

The COVID-19 pandemic is expected to continue to present challenges in the near term. Our links to the global economy means that the timing and size of

the economic recovery will depend on the success of international efforts to accelerate vaccinations to contain the spread of the virus, thus alleviating concerns regarding international travel. Public adherence to the preventative directives are crucial, making the path to economic recovery much more attainable. The financing and external reserve buffers accumulated during 2020 are intended to help the country navigate these challenges.

Monetary Policy and Financial Stability

In support of Government's policy response, the Bank eased its monetary policy stance by reducing the discount rate on temporary advances to financial institutions, lowering the mandatory Government securities reserves ratio for banks and eliminating that ratio for non-bank deposit taking financial institutions.

The Bank also updated its regulatory guidance on temporary arrangements to its licensees which

granted moratoria on loans to their customers. These measures were intended to assist financial institutions facing an expected deterioration in credit quality of businesses and households to service existing and new loans. Non-performing loans did increase modestly and banks raised their provisions; nevertheless the financial system remained stable in the recessionary environment.

The deepening of the economic crisis could adversely impact financial institutions, but high excess bank liquidity and the well-capitalised banks should serve to cushion the effects of the economic fallout. Indeed, system-wide stress tests conducted by the Bank indicated that the domestic financial system has the ability to withstand the magnitude of the pandemic shock, with appropriate policy adjustments to reduce the negative spillover effects.

Financial Performance

The Bank registered a net income of \$24 million, despite the low interest rate environment for international reserves investments. This performance reflected improved foreign exchange earnings from the larger holdings of reserves, and gains from lower expenditures occasioned by the deferral of some operations as a result of COVID-19. Preliminary work started on the recapitalisation plan for the Bank during 2020.

Organisational Achievements

The Bank continued to deliver its services, largely from remote locations. Our investment in technology allowed us to adapt almost seamlessly our engagement with the Bank's stakeholders. Internally, we established a COVID-19 Task Force that developed safety and security protocols for staff, reflecting a proactive and caring approach to the management of the emerging risks. The Bank's Security, Maintenance, and Currency Sections were our essential frontline staff, ensuring that the building was secure and healthy, and that the wider public had access to much-needed cash.

Our public outreach was enhanced with the design of new programmes to ensure that our staff and various publics remained connected. Our refocused Caribbean Economic Forum was well received by the public. I am especially proud of the fitting tribute we paid to the essential workers of Barbados, including our own staff, in the form of the limited-edition glow-in-the-dark coin.

The Bank remained focused on its core objectives and, through its production of technical economic

research and policy analyses on critical economic issues, economic press briefings, digital seminars, speeches and publications, ensured that the public was kept abreast of economic and financial sector developments. The Bank remained actively engaged in the IMF reviews and staff visits, as well as national subcommittees working to strengthen the analysis of debt and the fiscal statistics.

Considerable attention was paid to the drafting of the new Central Bank of Barbados Act, which was passed into law on December 14, 2020, and to the new National Payments System Bill which will come on-stream this year. Work continued on the upgrade of the Automated Clearing House (ACH) to facilitate improved efficiency in domestic payments.

On behalf of the Board of Directors, I would like to express sincere thanks and appreciation to the management and staff for their dedication and commitment during the year. Despite the challenges presented by the new environment, staff continued to advance the Bank's strategic initiatives. This commitment will be needed in the new year, as the Bank continues to monitor and assess economic developments, enhance its internal governance and risk management, mitigate emerging cyber-security risks and accelerate its digital transformation initiative, including the establishment of an enterprise-wide document, record and content management system.

The Bank's strategic programme for the triennium 2021-2023 places increased focus on the Bank's relations with its stakeholders and increased attention will be placed on ensuring that the Bank's culture supports better performance management and measurement, and improved organisational efficiency. I am confident that the Bank, with the continued support and cooperation of management and staff, will continue to Rise to the Challenge.



During the 45th Sir Winston Scott Memorial Lecture, Governor Cleviston Haynes interacts with distinguished featured presenter, Dr. Ngozi Okonjo-Iweala.

BOARD OF DIRECTORS



Cleviston Haynes
Governor,
M.A. (Econ.)



Vere Brathwaite
B.Sc., LL.B



Trevor Campbell
M.A.



Ian Carrington
M.P.A.



Simon Naitram
Ph.D.



Professor Justin Robinson
Ph.D.



Joseph Ward
B.Sc., FCA

SENIOR MANAGEMENT



Cleviston Haynes
Governor, M.A. (Econ.)



Alwyn Jordan
Deputy Governor, M.Sc.



Pamela Arthur
Director, Human Resources,
M.Sc.



Anton Belgrave
Director, Research and
Economic Analysis
M.A. (Econ), FRM



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



Ian Collymore
Director, Foreign Exchange
and Export Credits, M.Sc.



Michelle Doyle-Lowe
Advisor to the Governor
MPhil, CFA



Elson Gaskin
Secretary to the Board
LL.B, L.E.C, M.B.A, M.I.C.B.S, J.P.



Cheryl Greenidge
Director, Bank Supervision
M.B.A.



Janice D. Marshall
Director, Strategic Planning
and Risk Management, M.B.A.



Peter Rochester
Director (Ag.), Management
Information Systems, M.B.A.



Philmore Thorne
Financial Controller (Ag.)
M.B.A, F.C.C.A, FCA



Steve Vaughn
Chief Internal Auditor
F.C.C.A, C.I.A.



Julia A. Weekes
Director, Banking, Currency
and Investments, B.Sc., CFA

OTHER SENIOR OFFICERS



Wilma Belgrave

Deputy Director
Foreign Exchange and Export Credits
B.Sc., ACIS

Debbie Briggs

Deputy Director
Banking, Currency and Investments
B.Sc., F.C.C.A.

Novaline Brewster

Chief, Corporate Communications
M.Sc., J.P.

Jennifer Clarke-Murrell

Deputy Director
Bank Supervision (Ag.)
M.Sc.

Sadie Dixon

Legal Counsel
LL.B., LL.M. L.E.C.

Darrin Downes

Chief Economist
Research and Economic Analysis
M.A. (Econ.), LL.B., L.E.C.

Octavia Gibson

Deputy Director
Banking, Currency and Investments
M.Sc., PMP, J.P.

Vincent Grosvenor

Deputy Director
Management Information Systems (Ag.)
M.Sc.



Roger Gumbs

Deputy Financial Controller (Ag.)
B.Sc., C.G.A., C.F.S.A.

Josephine Haywood

Deputy Director
Management Information Systems
B.Sc., C.G.A.

Tamara Hurley

Deputy Director
Bank Supervision
M.B.A.

Hartley Jordan

Deputy Director
Facilities Management
M.B.A.

Shari Lorde Richards

Deputy Director
Bank Supervision (Ag.)
M.Sc.

Sheryl A. Peter-Kirton

Chief, Digital Programming
Digital Transformation Unit
M.Sc.

Angela Skeete

Chief, Information Services
Research and Economic Analysis
M.A.

An aerial night photograph of a city. The central focus is a large, modern building with a distinctive design featuring four tall, cylindrical red pillars supporting a multi-story structure. The building is brightly lit with red light. Surrounding it are other city buildings, streets, and a parking lot in the foreground. The sky is dark, and the overall scene is illuminated by city lights. The image is framed by blue wavy patterns at the top and bottom.

RISING TO THE CHALLENGE



1. CORPORATE GOVERNANCE

Board Matters

For the majority of 2020, oversight of the Bank's administration and operations was governed by the *Central Bank of Barbados Act Cap. 323C* ("the former Act"). Under the former Act, the Board of Directors is entrusted primarily with the overall responsibility for the policy and general administration of the Bank.

The former Act was repealed and replaced by the *Central Bank of Barbados Act, 2020-30* ("the new Act") which was passed into law on December 14, 2020. The new Act represents the most significant change to the Bank's governing legislation since its establishment almost 50 years ago, providing improved internal governance, operational autonomy, and ensuring compliance with internationally accounting standards.

With the passing of the new Act the Bank's governance framework is to be administered by two decision-making bodies, namely the Board of Directors and the Executive Committee. The Board is responsible for the oversight of the executive management of the Bank, as exercised by the Executive Committee, and the tenure of members has been extended to six years. The Executive Committee, which is a new addition to the Bank's governance structure, comprises the Governor, whose term has also been extended to six years (with the option of reappointment), and two Deputy Governors. This Committee has responsibility for the executive management of the Bank and the formulation, adoption, and implementation of monetary and financial stability policies. The specific functions and powers of the Board and the Executive Committee are described in detail under sections 13, 14 and 15 of the new Act, respectively.

Composition of the Board

The Board of the Bank consists of the Governor as Chairman, the Director of Finance and Economic Affairs as an *ex officio* member, and five other non-executive Directors who are required to be persons formally qualified in or possessing not less than 10 years' experience in the areas of law, economics, accounting, banking, finance, and business. The

members of the Board of Directors, apart from the Governor, are Professor Justin Robinson, Trevor Campbell, Dr. Simon Naitram, Vere Brathwaite, Joseph Ward, and Ian Carrington, Director of Finance and Economic Affairs. Vere Brathwaite and Dr. Naitram were appointed to the Board effective July 1, 2020 for two and one-year terms, respectively. Professor Nlandu Mamingi's tenure as Board member ended effective June 30, 2020. The Bank expressed thanks to Professor Mamingi for his sterling support and contributions to Board deliberations.

The Bank Secretary, Elson Gaskin, is the officer chiefly responsible for Board administration. Statutorily, there are two Deputy Governors of the Bank. At December 31, 2020, one post of Deputy Governor was vacant. Michael Carrington, whose service to the Bank spanned 31 years, and who most recently acted as Deputy Governor, Operations from 2017 to 2020, retired effective September 4, 2020. The Bank extended best wishes to Mr. Carrington on his retirement and expressed sincerest gratitude for his unswerving contribution to the Bank. We wish him all the best in his future endeavours.

Meetings of the Board

The Bank's by-laws provide for regular meetings for which no notice is necessary and for special meetings to be convened at the written request of the Governor or any two Directors. In the latter case, however, notice is required.

The Board met in 11 regular sessions in 2020 in addition to three special meetings. Among the matters considered in the year under review were macroeconomic developments and monetary policy, the administrative budget, human resources issues, strategic planning, and other periodic reporting.

Sub-Committees of the Board

There is one sub-committee of the Board, namely the Audit Committee, which met five times during the year. Following the December 2020 passing of the new Central Bank of Barbados Act, the Audit Committee has been given statutory recognition.

The statutory responsibilities of the Audit Committee include the evaluation of the overall effectiveness of internal control systems of the Bank, the oversight of the internal audit, the financial statements and financial reporting process. The latter includes oversight of the planning and execution of the external audit in order to make a recommendation to the Board for the approval of the audited financial statements. The Committee also reviews the performance of the external auditors and policies for their selection and rotation, and reports on its activities to the Board. The Committee's mandate was expanded in 2019 to include risk management. The Audit Committee comprises Joseph Ward (Chairman), Vere Brathwaite, and Professor Justin Robinson. All members of the Audit Committee are non-executive Directors.

Apart from the Audit Committee, a member of the Board, Dr. Simon Naitram, also sits on the Committee of Management of the Staff Pension Fund.

Internal Audit

Assurance and consulting audit work of business operations were conducted during the year. Included were the semi-annual reviews of the International Monetary Fund (IMF) programme monetary data reported by the Bank to the IMF, the SWIFT customer security programme, business continuity and capital projects, currency operations and investments. The results of the audits completed during 2020 were communicated to the Audit Committee and management.

During the year, the audit function was hampered to some degree by the impact of COVID-19, resulting in the deferment of an external quality assessment of the Internal Audit department, which is now planned for 2021.

Strategic Planning

The Strategic Planning Committee and the Strategic Planning and Risk Management unit worked collaboratively to formulate the Bank's 2021-23 Strategic Plan. Following a SWOT analysis, which included a review of stakeholders' feedback and the Bank's progress in delivering on its programmes, it was recognised that in certain areas of the Bank's operations there was sub-optimal progress, principally because of disruptions engendered by the COVID-19 pandemic and resource constraints.

The adoption of the theme for the triennium, ***"Transforming our Bank, Accelerating the Journey"***, involved the revision of some of the strategic priorities and objectives in pursuit of the Bank's vision. The Bank's core work, which includes macroeconomic and financial stability, as well as oversight of payment system services, remains central to the strategic plan. In addition, digital transformation, governance, and strategic planning and risk management remain as critical priorities. Communications and human capital development were removed from the original priorities list under which they were previously subsumed, and elevated to priorities in their own right.

During the year, the Bank began to build upon its approach to strategic performance monitoring and measurement by introducing a new project management tool. To ensure its smooth implementation, training and awareness exercises were completed by departments that are heavily project-based. Training for the remaining business units and monitoring performance will continue in 2021, with corresponding reports being prepared for management and the Board.

The Bank is in the process of implementing corporate, departmental, and individual key performance indicators (KPIs), using a Balanced Scorecard methodology. Future plans include building a risk management framework, accompanied by implementation and the requisite training. The aim is that by the fourth quarter of 2021, the Bank will have implemented a comprehensive enterprise performance management system inclusive of strategy, with added KPIs, projects and risk.

Digital Transformation

A digital transformation roadmap was created to prioritise various digital projects and a comprehensive institutional framework was developed. To this end, the Bank established a Digital Transformation Unit (DTU) during the first quarter of 2020. The DTU is charged with streamlining and coordinating enterprise-wide digital initiatives related to the leveraging of new technology, business processes, data analytics, and advancing the Bank's digital culture.

Projects and initiatives designed to accelerate the digital transformation programme included cross-departmental collaborations in order to improve information-sharing arrangements using electronic data exchanges. The identification and development of workflow solutions were also prioritised.

Risk Management

The information security impacts of COVID-19 were assessed, particularly the risks and security threats related to staff's increased online presence and remote working arrangements, which have created additional cybersecurity risks for organisations globally. In this regard, the information security awareness training completed by staff during the year was effective in sensitising them to the burgeoning security threats and identifying the appropriate actions to be taken. With the change in the staff's working arrangements,

the Bank monitored on an ongoing basis its bandwidth allotment to ensure its sufficiency for the large number of colleagues working remotely.

The Bank continued to comply with the Society for Worldwide Interbank Financial Telecommunication (SWIFT) and Customer Security Programme (CSP) by reviewing and addressing mandatory controls, which were set by SWIFT. In addition, the Bank has upgraded the enterprise-wide security software system, which featured the integration of the security monitoring mechanisms.

Our COVID-19 Response

To ensure the maintenance and efficiency of the Bank's operations over the long-term, a COVID-19 Task Force was established in early March 2020. Initially, the task force convened daily to monitor, assess and oversee the policies, protocols, and programmes, as some staff continued to operate from the main building while others began to work remotely. The refinement and implementation of the Bank's draft teleworking policy was an early priority, and accomplishing this enabled more than half of the Bank's staff to begin working from their homes by the end of March.

The task force's focus turned to staff who continued to report to the main building for work, ensuring that they were able to do so effectively and in a safe environment. In this regard, a number of safety protocols were implemented, and a robust screening regime was imposed on persons entering the Bank.

Externally, the Bank kept the public updated about changes to its operating hours, advised on how to conduct business with the Bank remotely and, upon the resumption of regular operations, outlined the protocols for visiting the Bank. New signage and a short video were produced to help communicate these new policies.

A weekly COVID-19 declaration form was established to track the health of Bank staff, whether teleworking or physically reporting for work at the Bank. Measures were also taken to limit the amount of seating available in common areas, such as lunch and conference rooms, in order to dissuade the gathering of large numbers of persons. Towards the end of the year, safety protocols were established for use of the inhouse gym, which had been closed at the onset of the pandemic.

The task force has continued to meet regularly, monitoring local and global developments, and consulting with medical experts to ensure that the Bank's safety measures continue to reflect best practices.

2. MACROECONOMIC DEVELOPMENTS

Overview

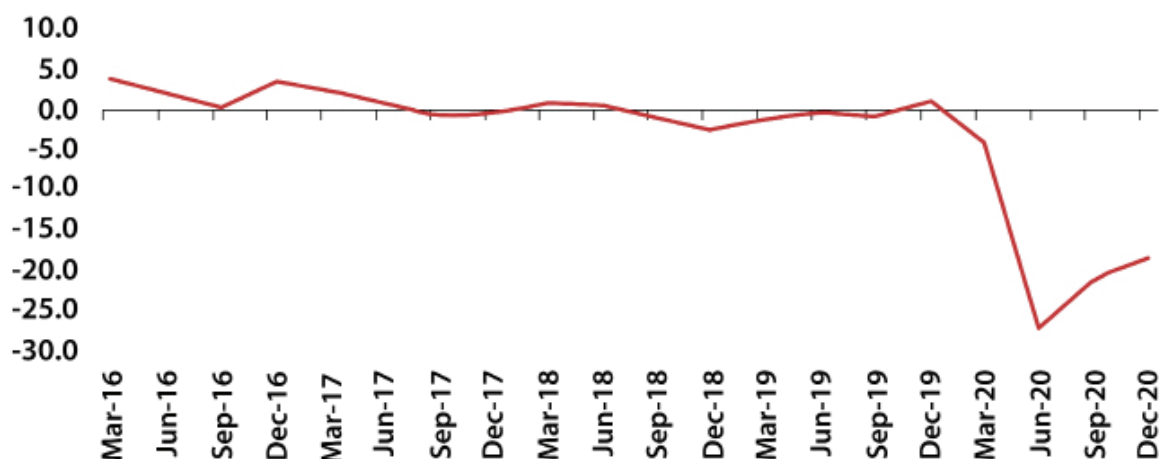
During 2020, the Barbados economy faced a myriad of challenges as a result of the global COVID-19 pandemic. Domestic economic activity was significantly impacted by limited international travel, which depressed tourism activity, resulting in delayed investment projects, dampened consumer spending, and a sharp increase in unemployment. The recessionary conditions also constrained Government's revenue collecting ability and elevated public debt. However, the assistance provided under the IMF's Extended Fund Facility (EFF) facilitated

the rapid mobilisation of external funding, which contributed to the accumulation of an unprecedented level of international reserves and closure of the financing gap.

Real Sector

Economic activity is estimated to have contracted by 18 percent, following sharp declines in long-stay tourist and cruise passenger arrivals. Additionally, investment and consumption spending also weakened significantly as a result of the heightened economic uncertainty caused by the pandemic.

Figure 1: Real GDP Growth (Quarterly)

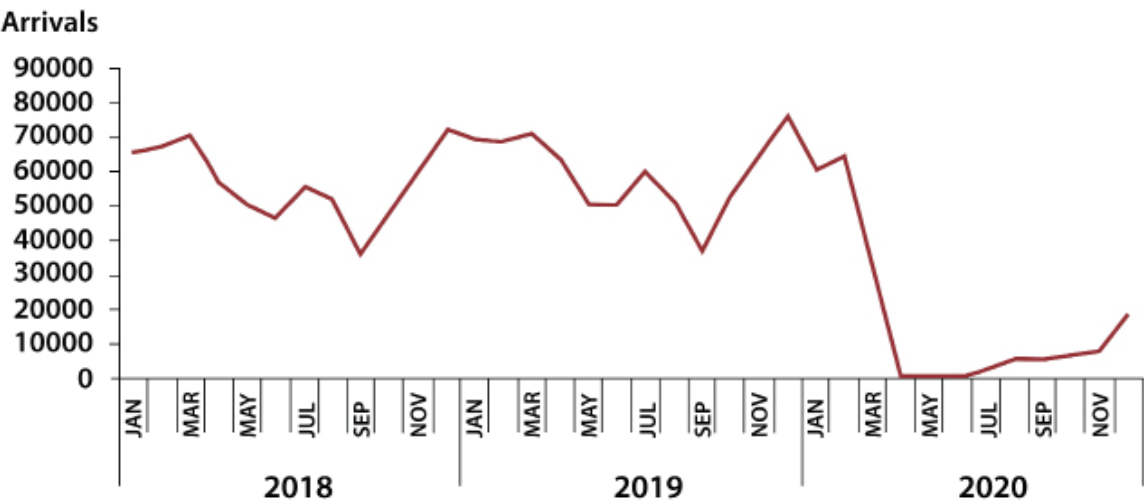


Source: Barbados Statistical Service and the Central Bank of Barbados

Tourist arrivals recorded a modest improvement in the last quarter of 2020. However, this performance was insufficient to compensate for the major disruption to international travel experienced in the

first half of the year. Total long-stay visitors fell by 71 percent and cruise passenger arrivals were lower by 64 percent. As a result, the tourism accommodation sector recorded lower occupancy rates and revenue.

**Figure 2: Long-Stay Tourist Arrivals
(Quarterly)**

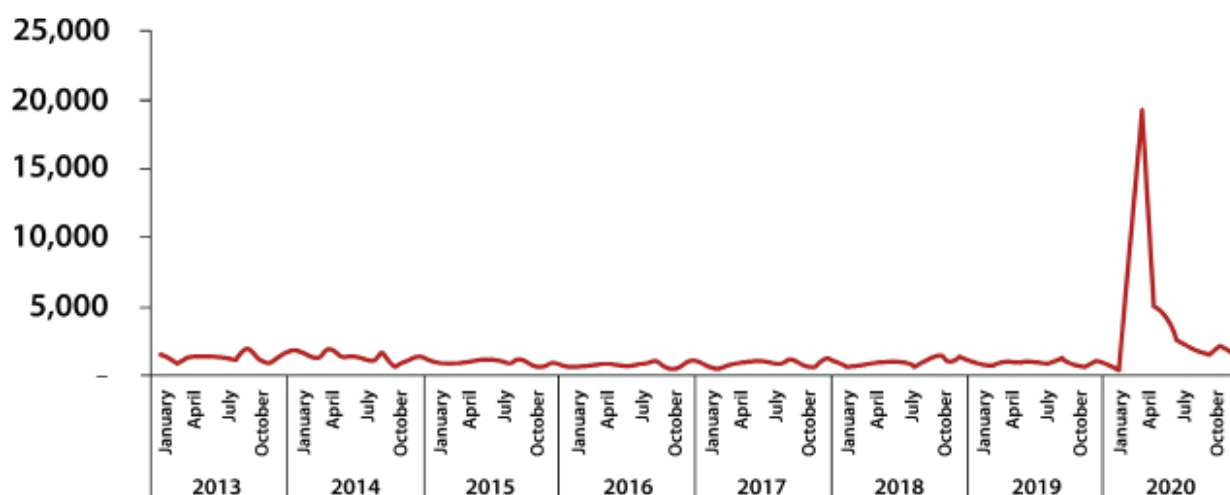


Source: Barbados Statistical Service and the Central Bank of Barbados

The national lockdown that occurred during the second quarter of 2020 required business closures and adjusted working arrangements, which contributed to increased unemployment in the private sector and an upsurge in unemployment claims. The gradual reopening of the economy during the third quarter resulted in the return of some jobs, including part-time work, as employers sought to contain business-related costs by reducing employment and working hours.

Domestic retail price inflation moderated slightly during the year. At the end of December, the 12-month moving average inflation rate was 3.0 percent, compared with 4.1 percent one year earlier. The decline in the inflation rate reflected primarily the impact of weakened international oil and other commodity prices on the domestic prices of energy products, clothing, non-vegetable goods and non-alcoholic beverages.

Figure 3: Monthly Unemployment Claims Received



Source: National Insurance Scheme

External Sector

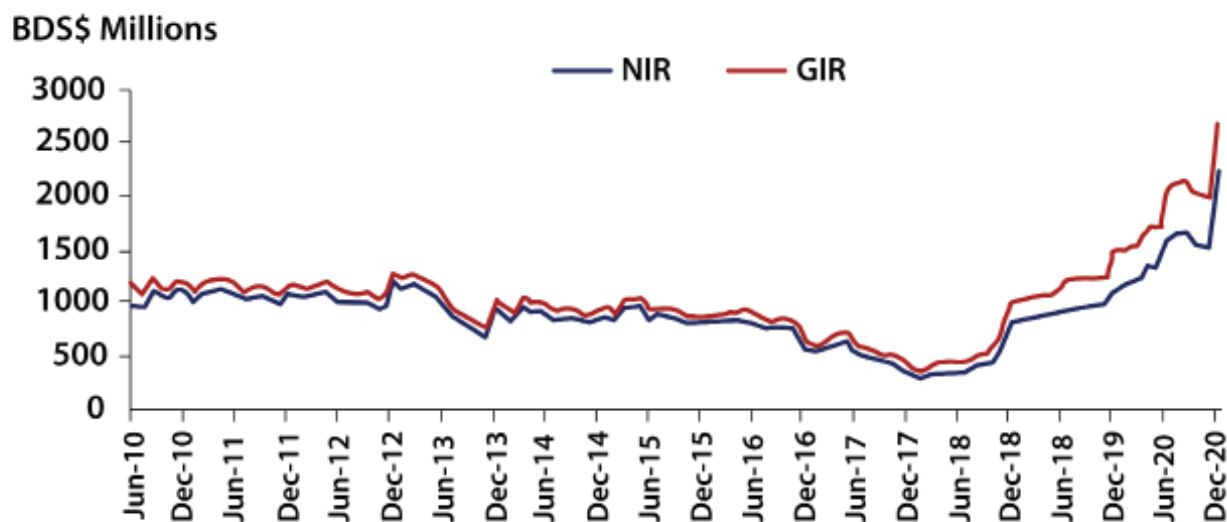
The gross international reserves rose by \$1.2 billion to an unprecedented \$2.7 billion, or approximately 40 weeks of imports of goods and services. The boost in the international reserves was primarily due to the support from international financial institutions (IFIs), which was aimed at softening the negative impact associated with reduced foreign exchange inflows from tourism and foreign investment. Inflows from companies that paid corporate taxes in foreign exchange and the reduced private sector demand for foreign exchange also contributed to the growth in foreign reserves.

The external current account deficit worsened, mainly because of the reduction in travel expenditure and

exports. Both the price and volume of fuel imports fell, and imports of food and beverages were also lower partially due to depressed activity in the tourism sector. However, imports of capital goods rose, reflecting higher demands for power generating equipment.

The financial account of the balance of payments was buoyed by the receipt of substantial inflows from various multilateral IFIs. The IMF augmented the available financial resources under the EFF programme, providing both balance of payments support (\$97 million) and budgetary support (\$368 million). In addition, the InterAmerican Development Bank (IADB) and the Development Bank of Latin America (CAF) provided supplementary budgetary support of \$400 million and \$200 million, respectively.

Figure 4: Gross International Reserves and Net International Reserves



Source: Central Bank of Barbados

Public Finances

Government adjusted its fiscal stance in response to the challenges of the prevailing economic environment. The initial primary balance target for FY 2020/21 of a surplus of 6 percent was revised downwards to a deficit of 1 percent. This revision was necessary to mitigate the impact of a 12 percent decline in revenue and the need to raise non-interest expenditure to fund the public sector's COVID-19 relief initiatives. At the end of the third quarter of the fiscal year, Government registered a primary surplus of \$243 million, or 2.8 percent of GDP, and an overall fiscal deficit of \$36 million or 0.4 percent of GDP.

The sharp reduction in domestic economic activity, combined with increased borrowing necessitated by the pandemic conditions, resulted in a reversal of the declining trend in public debt and a rise in the debt-to-GDP ratio from 120 percent at end of 2019 to 144 percent at the end of 2020. The higher public debt ratio is intended to be temporary, as Government remains committed to pursuing a path of debt sustainability over the medium term as economic conditions improve.

Financial Sector

The depressed economic environment contributed to elevated credit risk in the financial sector. In an effort to mitigate the expected deterioration in the ability of households and businesses to service their loans and

other debt obligations, financial institutions offered various payment deferral or moratoria schemes. In some instances, mortgage loans were restructured on a case-by-case basis to provide some customers with more manageable payment schedules. The Bank supported these initiatives by easing its monetary and regulatory policy stance to enable lending institutions to access, if necessary, low-cost liquidity support. However, the persistence of the economic downturn resulted in financial institutions recording moderately higher non-performing loans and lower profitability, the latter emanating from continued weak demand for new credit, primarily from banks, higher loan provisions and low interest rates. Despite this outturn, financial institutions continued to be well-capitalised and highly liquid, eliminating the need for the Bank to accommodate any liquidity shortages.



Corporate Communications Chief Novaline Brewster discusses the findings of the 2019 *Financial Stability Report* with Senior Economist Carlon Walkes.

Table 1: Leading Economic Indicators

	2015	2016	2017	2018	2019 ^(p)	2020 ^(e)
Nominal GDP (\$ Million) ¹	9,430.0	9,660.0	9,956.3	10,173.4	10,399.9	8,853.2
Real Growth (%)	2.4	2.6	0.6	(0.4)	(0.1)	(17.6)
Inflation (%) ²	(1.1)	1.5	4.5	3.7	4.1	3.0
Avg. Unemployment (%) ³	11.3	9.7	10.0	10.1	10.1	n.a.
Gross International Reserves (\$ Million)	878.0	639.8	411.3	999.6	1,481.0	2,661.9
Gross International Reserves Cover, Weeks	11.2	8.2	5.3	12.8	18.6	40.3
BoP Current Account (% of GDP)	(6.1)	(4.3)	(3.8)	(4.0)	(2.5)	(7.0)
Total Imports of Goods (% of GDP)	32.6	31.9	30.5	29.5	29.5	32.5
Travel Credits (% of GDP)	20.1	21.5	21.7	22.4	24.9	12.9
Financial Account (\$ Millions)	442.3	84.2	86.4	887.6	792.7	1,228.2
Gross Public Sector Debt (% of GDP) ⁴	144.2	151.2	148.4	126.3	120.2	144.4
External Debt Service Ratio	9.5	8.0	8.3	4.9	3.6	8.7
Treasury-Bill Rate	1.8	3.1	3.2	0.5	0.5	0.5
Implicit Deposit Rate	0.9	0.3	0.1	0.1	0.1	0.04
Implicit Loan Rate	6.7	6.5	6.5	6.4	6.2	5.7
Excess Cash Ratio	11.1	15.7	14.2	16.1	18.5	22.8
Private Sector Credit Growth (%) ⁵	1.6	1.5	3.2	0.4	0.9	(1.5)
Private Sector Credit (% of GDP) ⁵	82.5	81.7	81.9	80.4	79.4	91.8
Domestic Currency Deposits (% of GDP) ⁵	113.8	114.9	112.7	111.7	111.8	138.4
Fiscal Year	2015/16	2016/17	2017/18	2018/19	Apr-Dec 2019/20	Apr-Dec 2020/21^(e)
Fiscal Balance (% of GDP)	(9.0)	(5.3)	(4.6)	(0.3)	3.1	(0.4)
Primary Balance (% of GDP)	(2.0)	2.2	3.2	3.5	4.9	2.8
Interest (% of GDP)	7.0	7.5	7.8	3.8	1.8	3.3
Fiscal Current Account (% of GDP)	(6.6)	(3.0)	(2.8)	1.6	4.0	0.9
Revenue (% of GDP)	25.7	27.8	28.8	29.3	20.6	21.9
Expenditure (% of GDP)	34.7	33.1	33.4	29.6	17.5	22.3
<i>Non-interest Expenditure (% of GDP)</i>	27.7	25.6	25.7	25.9	15.6	19.1
<i>Capital Expenditure (% of GDP)</i>	2.5	2.3	1.7	1.9	0.9	1.3
Gov't Interest Payments (% of Revenue)	27.4	26.9	26.9	12.9	8.9	14.9

^(p) – Provisional^(e) – Estimate

n.a. – Figures not available

¹ – Central Bank of Barbados and Barbados Statistical Service² – 12-month moving average for 2020³ – Four Quarter Moving Average⁴ – Gross Public Sector Debt = Gross Central Government Debt + Other Public Sector Debt⁵ – Based on consolidated data for deposit-taking institutions (Commercial Banks, Finance & Trust Companies and Credit Unions) and does not include credit to the non-residents

3. CENTRAL BANK OPERATIONS

3.1 BANK SUPERVISION

The number of licensed financial institutions under supervision by the Bank increased by one to 38. One

Part III licensee and one foreign currency earning bank completed the winding-up process during the year. Additionally, three existing money or value transmission service providers (MVTs) were licensed.

Table 2: Licensed Financial Institutions

Type of Institution	2015	2016	2017	2018	2019	2020
Domestic						
<i>Commercial Banks</i>	5	5	5	5	5	5
<i>Bank Holding Company</i>	1	1	1	1	1	1
<i>Part III Companies</i>	13	13	14	12	9	8
<i>Money or Value Transmission Service Providers</i>	0	0	0	0	0	3
Total Domestic	19	19	20	18	15	17
Foreign Currency Earning Banks	28	25	25	24	22	21
Total Licensed Institutions	47	44	45	42	37	38

Source: Central Bank of Barbados

Supervisory Framework

The regulation and supervision of institutions licensed under the Financial Institutions Act (FIA), Cap. 324A, remained a critical element of the Bank's mandate to maintain and promote financial stability. During the year, the Bank directed much of its regulatory efforts to the impact of the COVID-19 pandemic on the general public and banking sector.

The Bank adjusted to accommodate the new working environment, including modifying the inspection process with increased use of virtual meetings and the submission of digital documents. Prior to the pandemic, all supervisory processes were fully automated, which paved the way for remote access to databases. Communication was issued to licensees and the public, advising on channels of communicating and the submission of information required in order for the Bank to continue its monitoring and supervisory responsibilities. Previously-planned onsite reviews were conducted remotely, and the

examination programme focused primarily on anti-money laundering/combating financing of terrorism risk, credit risk and corporate governance.

In addition to the adjustments to work processes, operational risk management guidelines to licensees were revised, responding to the need for business continuity plans to address a wide range of possible effects that may occur during the pandemic. The Bank received regulatory reporting on an ongoing basis to facilitate the continued updating of licensees' risk profiles.

Guidance and position papers issued during the year related to a number of subject matters, such as regulatory capital, temporary arrangements and commercial banking fees. In the case of the latter, the Bank posted select bank fees on its website to further assist the public in making informed banking decisions.

Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) Supervision

The Bank continued to play a significant role in strengthening the national AML/CFT framework. The main focus was on assisting Barbados in improving its level of compliance with the Financial Action Task Force's recommendations. Following the completion of the National Risk Assessment (NRA), the competent authorities jointly held a session with industry stakeholders to share the results. The Bank's website was also updated to add a dedicated information page on AML/CFT.

Increased vigilance in combating money-laundering and terrorist financing (ML/FT) risks was required as financial institutions adopted protocols for promoting contactless transactions. The Bank, in collaboration with the Financial Services Commission, Ministry of International Business and Industry - International Business Unit, Corporate Affairs and Intellectual Property Office and the Financial Intelligence Unit, issued a joint regulatory response to remind entities of their AML/CFT responsibilities, even in the midst of the pandemic.

As the country embarked on the 12-Month Welcome Stamp initiative to facilitate non-residents working remotely from Barbados, the Bank issued guidance to authorised dealers. The guidance, which included AML/CFT requirements, sought to aid dealers when facilitating business relationships and engaging in specific transactions with Welcome Stamp participants.

De-risking, or the loss of correspondent banking relationships, remained a key area of focus, as discussions continued at both the regional and international levels. While the rate of terminations has slowed, the Bank continued to monitor developments. A survey of licensees was conducted towards the end of 2020, and the results are being analysed to assess any fallout from the European Union (EU) or FATF blacklistings.

Emerging Regulatory Developments

Entities continued to express interest in the Regulatory Sandbox, with prospective participants seeking to provide digital or mobile payment services. There was one applicant during 2020 and the Regulatory Review Panel awaits the submission of key information to inform the final decision.

The Fair Credit Reporting Bill provides for an Act of Parliament to oversee and regulate credit bureaus. The Bill has been recirculated to stakeholders for

further comment and the expectation is that it will be passed into law in 2021.

3.2 FOREIGN EXCHANGE OPERATIONS

Trading in Foreign Exchange

During 2020, the Bank recorded a further strengthening in the gross foreign exchange position, despite significantly higher sales of foreign exchange to Government for external debt service. The improvement in the gross foreign reserves reflects the combined effect of net purchases of \$736 million in foreign exchange from the Government, principally due to the receipt of drawdowns and policy-based loan funding from IFIs, and net purchases of \$274 million from the banking system.

The proceeds from the sale of foreign currency and Barbados dollars abroad were lower than for the previous year. The amount of Barbados dollars sold abroad totalled \$3 million, which was \$32 million less than the figure recorded during 2019. Repatriations of foreign currency accounted for an increase of \$56 million in foreign reserves available for investment, compared to \$95 million in the previous year.

Foreign Exchange Controls

The full suite of revised exchange control regulations came into effect from February 17, 2020, following the revised guidance on foreign currency accounts and travel allowances implemented in August 2019. Authorised dealers were granted delegated authority to undertake additional foreign exchange transactions without reference to the Bank. In particular, authorised dealers are now permitted to facilitate remittances for education, medical expenses, and most sundry items, while the general public can make payments electronically for overseas transactions either under delegated authority or with the Bank's approval.

These new regulations made it easier to engage in foreign exchange activities and improved the ease of conducting international business in Barbados. To ensure the efficacy of the new regulations, a comprehensive public relations programme that included training for authorised dealers and key stakeholders was implemented.

In 2021, the Bank plans to introduce a web-based application for the submission and approval of all foreign exchange applications. This initiative is expected to further modernise the system, thereby improving the quality of service to customers and business facilitation. During the year, the prevailing

pandemic conditions provided a preview of this new approach to foreign exchange applications, as the Bank initiated the electronic submission of applications and confirmation of approvals.

Investments in Foreign Reserves

The foreign reserves portfolio grew significantly during the year, principally because of the financial inflows from the IMF and other multilateral lending institutions. This allowed for the further diversification of the portfolio across money-market and fixed income instruments. The liquidity tranche of the foreign reserves’ portfolio increased by approximately 75 percent and the core tranche doubled in size during the year. With low international interest rates prevailing for the majority of the year, there was a reduction in income earned, with the portfolio generating a return of 2.63 percent for the year ended December 31, 2020.

3.3 MONEY, CREDIT AND CAPITAL MARKETS

Government Bond Market

The Bank maintained its focus on ensuring the timely payment of debt service on Government’s restructured bonds, including redemption of Series F bonds owned by the National Insurance Fund and its Severance Fund, totalling \$110.0 million and \$16.9 million, respectively. Transfers and secondary market transactions totalled \$64.0 million, while new primary issuance of the Series F bonds totalled \$25.1 million and were allocated as final settlement of outstanding arrears owed to companies and other service providers to Government.

During the month of July, the Government introduced the Barbados Optional Savings Scheme (BOSS) in response to the challenges caused by the COVID-19 pandemic. The programme was designed to provide public servants with a savings opportunity, thereby allowing investment in a four-year bond with an interest rate of 5 percent per annum. The bonds will be issued monthly for a period of 18 months. By December 31, 2020, BOSS bonds issued totalled \$28.1 million, with an average issue size of \$4.7 million. In addition to employees of the public service and state-owned enterprises, the bonds were held by a range of investors, including private individuals, pension plans, and credit unions.

**Barbados Optional Savings Scheme (BOSS)
Terms and Conditions for Issue**

The terms of the bond are as follows:

- 1. A four-year bond with a 5 per cent interest rate per annum.
- 2. Interest accrued shall be payable semi-annually in January and July, and principal paid four years from the issuance date of the bond.
- 3. No withholding tax on the interest earned.
- 4. Stamp duty shall not be payable.
- 5. Bonds are fully tradable in the secondary bond market.
- 6. Bonds are to be traded at par during each month of issuance.
- 7. Protected bonds - As with the domestic debt restructuring of 2018 in which savings bonds issued pursuant to the *Debt Holder (Approval of Debt Restructuring) Act, 2018* (Act 2018-24) were not restructured, these bonds are protected from any future restructuring.
- 8. Bonds will have an early redemption feature (after 24 months of date of issue) which will allow individuals to redeem their bonds early.
- 9. Who may purchase these bonds? Employees satisfying the criteria as detailed below:

Annual Net Salary	Percentage of net take home pay given in bonds
Under \$36,000	0% (may choose any percentage up to 25%)
\$36,001 - \$50,000	7%
\$50,001 - \$100,000	12%
Over \$100,000	17%
Government Pensioners	0% (may choose any percentage up to 25%)

Savings Bonds Issues

No new savings bonds issues were offered to the public in 2020. Certificates presented during the year for redemption or early surrenders totalled \$53.3 million. Savings bonds certificates of previously matured issues not yet presented for redemption totalled \$33.4 million at December 31, 2020.

Enhanced Credit Guarantee Fund

During 2020, the operating regulations of the Enhanced Credit Guarantee Fund were changed to allow collateral support for working capital and short-term loans for eligible businesses. Previously, support was only available for medium and long-term credits with a maximum maturity of 10 years. In addition, the loan disbursement period was extended for one year from June 19, 2020 to accommodate the undisbursed balance of under one million dollars, which was disbursed later in the year.

The number of guarantees issued under the Enhanced Credit Guarantee Fund decreased during the year. A total of 20 guarantees valued at \$16.6 million were approved, compared to 33 guarantees valued at \$15.1 million in 2019. In addition, foreign currency capital contributions received totalled \$14.7 million, bringing the cumulative amount for the project to \$69.9 million as at December 31, 2020. In addition,

the number of small and medium-sized enterprises using the collateral support provided under the credit guarantee scheme totalled 33 during the year. At year-end, there were 35 guarantees outstanding with a maximum liability of \$3.1 million, with the total supported credits amounting to \$4.2 million.

There were no outstanding liabilities for insurance business under the Export Credit Insurance Scheme at year-end, nor were any guarantees outstanding under the Export Finance Guarantee Scheme.

Industrial Credit Fund

A weak demand for credit and the high liquidity in the banking sector continued to impact the performance of the Industrial Credit Fund (ICF), with no loan applications being received and no disbursements made. The loan portfolio declined to \$1.8 million as at December 31, 2020 with the receipt of the regular loan repayments.

Housing Credit Fund

The level of inactivity in the Housing Credit Fund (HCF) continued during fiscal year 2020, as no loan approvals or disbursements were made during the period. The balance of loans outstanding decreased to \$40.2 million at year-end.

Table 3: Indicators of ICF Operations

	(BDS\$ Millions)			
Indicators	2017	2018	2019	2020 ^(p)
Principal Repayments	6.7	1.1	0.7	0.8
Loans Outstanding	4.4	3.3	2.6	1.8

(p) - provisional

Table 4: Key Indicators of HCF Operations

	(BDS\$ Millions)			
Indicators	2017	2018	2019	2020 ^(p)
Principal Repayments	13.5	6.6	17.1	3.4
Loans Outstanding	67.3	60.7	43.6	40.2

(p) - provisional

3.4 CURRENCY AND PAYMENT SYSTEMS

Currency Operations

In 2020, currency in circulation grew by \$61.2 million to \$890.0 million or 10.1 percent of GDP. This expansion resulted from the combined effect of a decline in currency issued to the public, which fell by \$44 million to \$1,113.1 million, and a decrease of \$60 million to \$1,051.9 million in the total amount of currency deposited with the Bank as at end December.

Of particular note, the value of notes in circulation increased significantly at the onset of the COVID-19 pandemic, registering growth of 4.7 percent and 10.1 percent in the months of February and March, respectively.

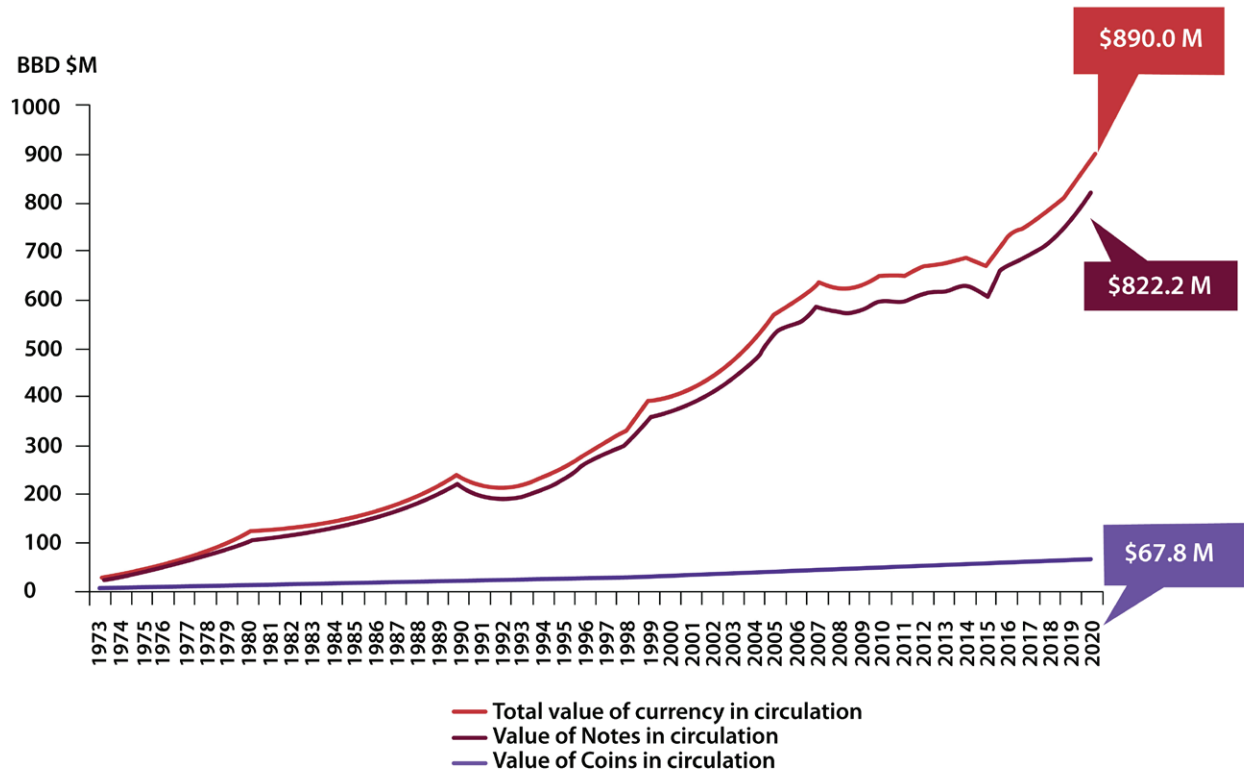
Both issues of currency and deposits were artificially lower because of the Bank’s instruction to commercial banks to use the cash deposited by their customers to satisfy their weekly requirements. This policy

was introduced at the beginning of the pandemic to reduce the frequency of physical contact between the Bank’s Currency staff and cash-in-transit operators.



The release of the new glow-in-the-dark one-dollar coins was accompanied by a series of videos and articles to ensure the public was aware of the coins and *au fait* with how to use them.

Figure 5: Value of Currency in Circulation



Source: Central Bank of Barbados

Glow-in-the-Dark Commemorative Circulation Coin

The Bank issued a limited-edition glow-in-the-dark circulation coin, the first of its kind in the Caribbean, as a tribute to Barbados' essential workers. The special coins, on which the flying fish and waves are painted blue, commemorate the valiant efforts of our country's essential workers who have and continue to work assiduously to ensure that Barbadians and visitors remained safe. While most of the coins were put into circulation, the Bank specially packaged some of them for distribution to essential workers from different sectors.

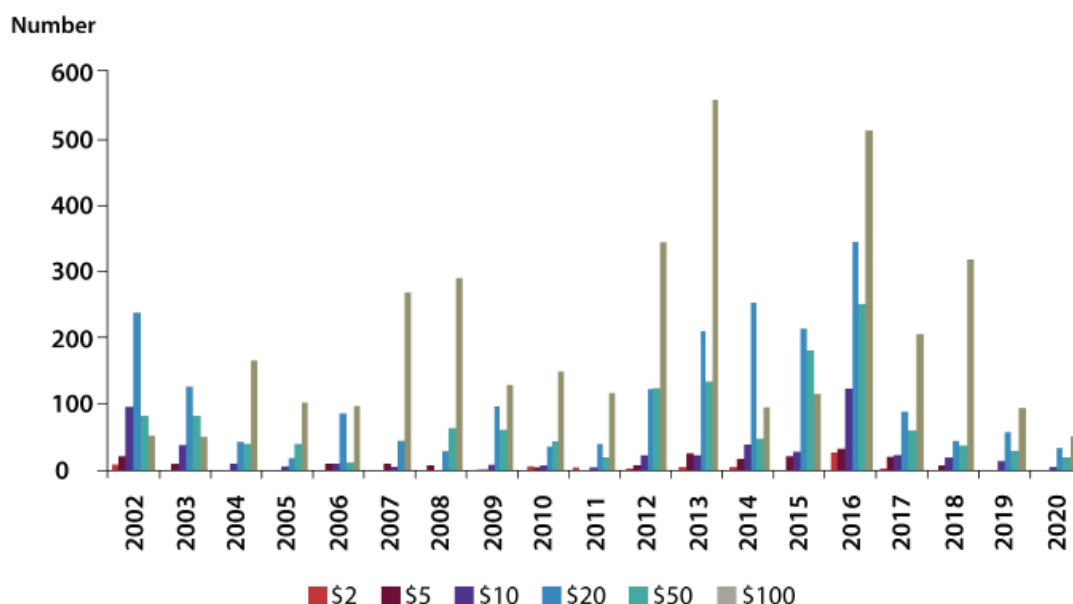
The issue of the coin was heralded by a half-hour virtual launch event which featured remarks from the Prime Minister, the Honourable Mia Amor Mottley,

the Chief Medical Officer, and Governor Haynes, as well as performances by Stedson "RBP" Wiltshire and the acapella group G Syndicate. The programme was hosted by popular deejay Patrick "Salt" Bellamy and featured a thank you by Jerosha Small, a technician at the Harrison's Point Isolation Facility. Like most of the Bank's events, the launch was streamed on the Bank's Facebook page and YouTube channel. Notably, it became one of the Bank's most popular videos for the year.

Counterfeit Deterrence

A total of 105 counterfeit banknotes were removed from circulation during the year, which was 85 fewer than were recorded in 2019. The \$100 banknote continued to be the most frequently counterfeited denomination.

Figure 6: Denomination of Counterfeit Notes



Numismatic Programme

During 2020, 11 additional royalty arrangements were signed. Royalties received for the minting of coins were \$150,217, as compared to \$172,973 earned during 2019.

Payments

In 2020, the Bank piloted the National Payments Systems Bill and its supporting regulations. This statutory initiative also required an amendment to

the Bills of Exchange Act and the preparation of additional legislation to establish a Financial Services Tribunal. The purpose of the Tribunal is to provide a convenient forum for the orderly resolution of consumer complaints that originate in the financial sector. The National Payments Bill is expected to be passed into law in 2021. In anticipation of its introduction, the Bank is in the process of preparing for its administration and is designing a public education programme to ensure that all stakeholders understand their rights and obligations under the new legislation.

¹Royalty arrangements are contracts between the issuing authority (central bank) and collector marketing organisations or mints for the production and distribution of legal tender commemorative coins abroad. Royalty programmes present an opportunity for the central bank as an issuing partner to receive a guaranteed royalty payment for every coin struck or sold. There is no risk for the issuing authority in terms of production, cost, marketing, sale, distribution or storage of the coins produced.

Preliminary work advanced on the new Real-Time Gross Settlement (RTGS), public debt, and Automated Clearing House (ACH) applications, all scheduled for implementation in 2021. The ACH system is critical to supporting real time (instant) payments among customers of the Bank, commercial banks and credit unions.

Payments System Activity

The volume and value of cheques and direct payments processed through Barbados' Automated Clearing House (ACH) system increased, largely due to the

payment of National Insurance Scheme unemployment benefits displaced by COVID-19 pandemic. The value of cheque payments rose by 10.9% to \$17.3 billion, and the value of direct payments grew by 57.4% for the year.

The value of point-of-sale (POS) transactions declined by 2.3% to \$611.8 million compared to 2019. In addition, the value of automated teller machines (ATM) transactions fell to approximately \$610.8 million, representing a 12.5% decline relative to the value of ATM transactions in the previous year.

Figure 7: Cheque Transactions

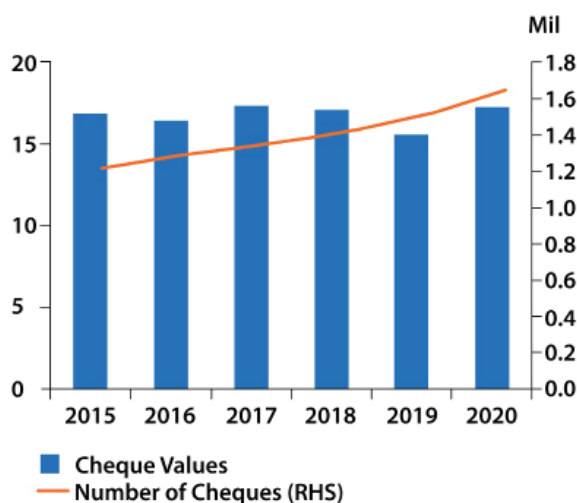
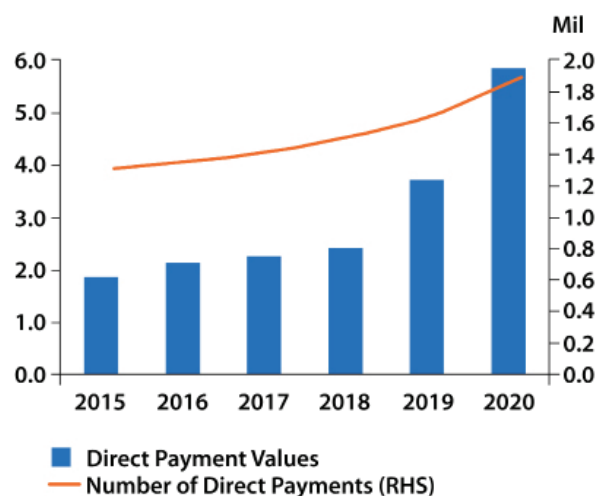


Figure 8: Direct Payments



Source: Central Bank of Barbados

Figure 9: Point-of-sale Transactions

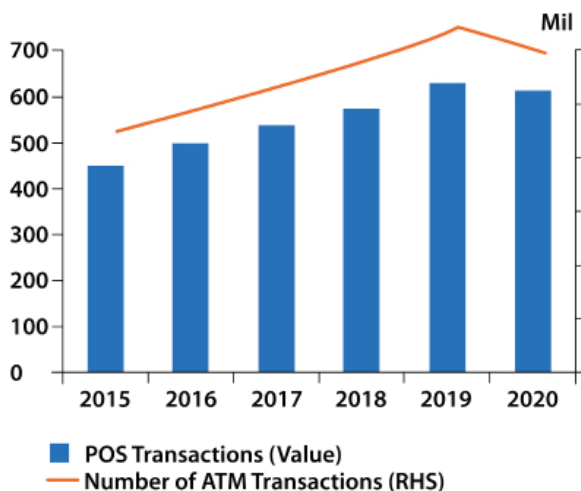
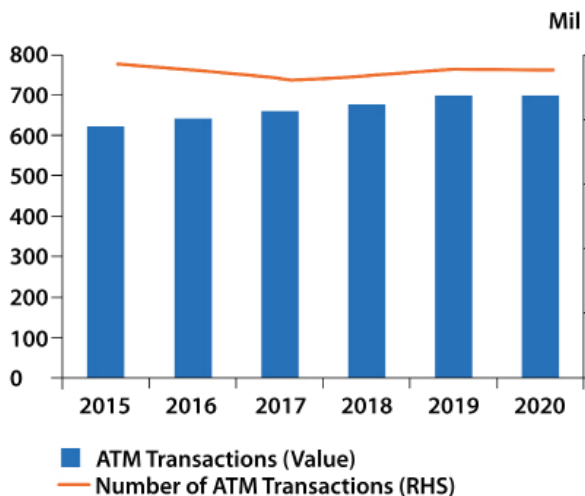


Figure 10: ATM Transactions

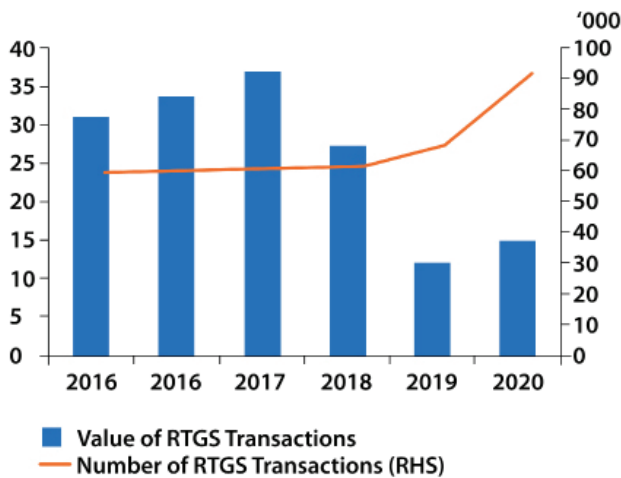


Source: Central Bank of Barbados

The total value of transactions processed through the Real Time Gross Settlement (RTGS) system were higher by 26.6 percent, and the number of transactions rose by 36.4 percent. This outturn was bolstered by

the desire for contactless payments in the COVID-19 environment, which also led to increased land tax and other payments to Government being facilitated through the RTGS platform.

Figure 11: RTGS Transactions



Source: Central Bank of Barbados

Fintech Initiatives

In July 2020, the Bank hosted a webinar on central bank digital currencies (CBDCs) over a period of three half-days, attracting local, regional and international participants. The webinar provided a valuable forum for examining a number of issues related to the benefits, risks and practicalities of CBDCs:

- Government strategies for digital transformation and requirements for various aspects of the economy, with emphasis on the intersection with the financial services sector.
- Regional strategies to reduce currency in circulation, and the findings of a recently conducted survey on payments methods by the Centre for Economic Research Team (CERT).
- Commonly used platforms such as blockchain and distributed ledger technologies, and how CBDCs might help central banks achieve their currency management and payments objectives.
- Whether a Caribbean Settlement Network (CSN) utilising CBDCs would facilitate direct regional currency convertibility, intraregional trade, commerce, and remittance flows.
- The experiences of the regional and international central banks (Eastern Caribbean Central Bank, Central Bank of the Bahamas, and the Bank of Canada) with their respective CBDC pilots.
- The views of the International Monetary Fund (IMF) on various approaches being employed by CBDC pilots, and emerging standards and best practices.
- The perspectives of local stakeholders on the potential introduction of a Barbados CBDC.

3.5 INFORMATION TECHNOLOGY

The Bank's 2020 Information Communications and Technology (ICT) action plan was forced to shift its focus in order to facilitate remote access for its staff due to the COVID-19 pandemic. This included acquiring new computer equipment to meet departmental requests.

The use of virtual and digital services expanded during this period, accommodating in particular, online meetings, and the staging of virtual seminars, conferences, and training events.

Video tutorials on the various technologies used in the Bank were developed, both for existing hardware and software and for new applications introduced during the year. The tutorials were both effective and timely, as the Bank continues pursuing a major digital transformation initiative that has thus far included the introduction of digital signatures, upgraded document curation and the streamlining of workflows. In addition to increasing efficiency and information security, these initiatives are geared to helping the Bank to become a greener institution by, among other things, reducing the use of paper.

A major asset management project was undertaken which enabled new types of information to be collected and added to the Tech One maintenance module software. During the early stages of the pandemic, the Bank successfully digitised purchasing procedures and introduced a budgeting module, which allowed for the full digital submission, approval, posting, and tracking of the Bank's budget.

Preparations for the redevelopment of the Bank's websites are at an advanced stage and are scheduled to be launched in 2021.



New technology now enables the Tom Adams Financial Centre to be specially lit to reflect national initiatives such as cancer awareness, as well as the seasons of Independence and Christmas.

3.6 PEOPLE AND PROGRAMMES

With much of the staff resorting to remote work arrangements, frequent updates were issued on how they could access the usual benefits and services.

The Bank also made it a priority to keep staff informed about COVID-19 and its potential impacts on their personal and professional lives. In early March 2020, as the pandemic was becoming more prevalent in the western hemisphere, the Bank organised a staff meeting that featured a virtual presentation by an official from the Caribbean Public Health Agency (CARPHA).

Once the first case of COVID-19 was diagnosed in Barbados, the Bank began to issue internal PSAs – initially three times a day and later once daily – sharing the latest national and international information about the virus and the measures being taken to contain it, along with links to Government's news conferences and special updates. Multiple platforms were used to share this information, including email, WhatsApp, and announcements over the public address system for those reporting to their offices. The Bank organised several initiatives to help preserve the internal community's spirit, including virtual picnics and trivia competitions, a virtual church service and an online fete. Governor Haynes also held a virtual chat with staff.

In November, the annual Focus Fridays outreach programme, which promotes the Bank's research resources and collections, was streamed to facilitate the participation of offsite staff. Informal social events organised by the Bank, as well as the Sports and Cultural Club, served to promote camaraderie among staff, who were mainly working remotely and physically distant.



Roseann King, Senior Administrative Assistant to the Governor, was among the seven retirees leaving the Bank in 2020 after many years of service.

A major virtual event was the novel Thank-a-Thon for staff held at year-end. Staged during the Christmas season, it included managers expressing appreciation to their team members for a successful year despite the many challenges encountered by the organisation and the country as a whole. Governor Haynes also thanked the entire staff for their commitment to achieving many of the Bank’s objectives and supporting the Bank’s vision of becoming and maintaining an institution of world class excellence.

Staff Movements

Fourteen persons joined the Bank’s permanent establishment during the year while 10 persons left, reflecting seven retirements, one termination, one resignation, and unfortunately one death. At year-end, the staff complement stood at 251, of which 220 were permanent employees.

During the year, seven longstanding members of staff retired from the Bank:

Retirees	Years of Service
Jessica Mounter-Broome	41
Roseann King	40
Edwin McClean	36
Celeste Wood	36
Michael Carrington	31
Calvert Franklyn	22
Preston Nurse	22

Promotions

Four persons were appointed as Directors during the year: Pamela Arthur (Human Resources), Anton

Belgrave (Research and Economic Analysis), Ian Collymore (Foreign Exchange and Export Credits), and Cheryl Greenidge (Bank Supervision). A number of other officers advanced to new positions as well:

	New Position	Department
Sherri Bishop	Senior Communications Officer II	Governor’s Office
Kimarie Clement	Senior Examiner	Bank Supervision
Ronnie Cummins	Human Resources Administrator	Human Resources
Sharon Darlington	Administrative Assistant	Internal Audit
Kimberley McDonald	Senior Human Resources Administrator	Human Resources
Ross Simmons	Senior Analyst/Programmer	Management Information Systems
Janelle Ward	Senior Administrative Assistant	Governor’s Office

Education and Certification

A number of staff members enhanced their qualifications during 2020, including: Bradley Harris, M.Sc. Financial Management; Erskine Hinds, B.Sc. Information Technology (Major) and Education (Minor); Hope Husbands, Designation of Financial Modelling and Valuation Analyst (FMVA); Sharon Layne, M.B.A specialising in Banking; Onoh-Obasi Okey, M.Sc. Economics and Development Economics with Distinction; and Karise Wilson, B.Sc. Mathematics and Economics. Several other members of staff completed various certificate programmes.

Training

Despite the disruption to the ongoing training schedule by COVID-19, the Bank continued to provide staff with developmental opportunities. During the first quarter of the year, 120 supervisory staff received training in performance management, while later in the year, secretaries and administrative assistants benefitted from online training in John Maxwell's "15 Invaluable Laws of Growth" delivered by Roseann King, Senior Administrative Assistant to the Governor. Security Officers received training in several areas, including the enhanced security software systems, while members of the new DTU availed themselves of a number of open online classes, webinars and workshops offered by local, regional and international organisations.

3.7 CORPORATE OUTREACH

The COVID-19 pandemic necessitated a change in the way the Bank approached its public outreach efforts and its overall communications. While a few longstanding and much-anticipated events had to be postponed or even cancelled, in many instances, the Bank delivered reimagined, refreshed activities and attracted even wider audiences.

The Frank Collymore Hall (FCH)

The first quarter of 2020 saw the venues of the Frank Collymore Hall facilitating the Fish and Dragon Gala and various benefit concerts, including the popular Broadway to Barbados series. The live presentation of the inaugural "Gine On" People's Choice awards brought a new dimension to the FCH, as many of the attendees and awardees revealed that prior to that event, they had never been to the Hall.

The February presentation of Mosaic VII brought the curtain down on live performances for almost nine

months, as the Bank's venues were closed shortly thereafter due to COVID-19 restrictions. As pandemic-related restrictions eased somewhat during the last quarter, clients began to use the venue to livestream and record performances as well stage in-person events before limited audiences.

The Bank's much-anticipated "Christmas on the Green" concert was restructured into three smaller events, each featuring different artistes and attracting capacity audiences of 250 persons in observance of seating restrictions.



The Frank Collymore Hall repackaged its annual Christmas Concert into three smaller ones, each one livestreamed and also drawing capacity in-person audiences, such as this one which featured the Myriad Singers of Barbados.



A performance by "Stringed Brotherhood" is recorded for later inclusion in the virtual 23rd Annual FCLE Awards Ceremony.

23rd Frank Collymore Literary Endowment Awards

The annual Frank Collymore Literary Endowment (FCLE) competition was launched in the last quarter of the year, reflecting new innovations in response to COVID-19 protocols. The online submission of entries was introduced, as was the committee's use of e-reader devices for the evaluation of scripts. This year's masterclass featuring Évelyne Trouillot from Haiti was held virtually, and the awards ceremony in February 2021 was streamed online rather than being held before a live audience.

Frank Collymore Literary Endowment Winners (February 2021)

Prize	Amount	Artiste	Entry	Category
1 st Prize	\$10,000	Linda M. Deane	An Ocean Away, My Mother Smiling: Tales of Migration and Memory	Poetry
2 nd Prize	\$ 5,000	Carlyon Blackman	All Oppression is Connected	Poetry
2 nd Prize	\$ 5,000	Jacinth Howard	The Mother Island	Poetry
Prime Minister's Award (sponsored by Minister of Culture)		Zoanne Evans	Tameisha's Lesson	Prose

Fish and Dragon Festival

In February, the Bank partnered with the Embassy of the People's Republic of China to stage the 6th Fish and Dragon Festival. The festival, which celebrates the more than 40 years of diplomatic relations between Barbados and China, attracted more than 8,000 attendees, who flocked to the Garfield Sobers Gymnasium to watch performances by China's Jilin Provincial Art Troupe along with martial arts displays and local entertainers.



A fusion of Barbadian and Chinese cultures, the 6th Fish and Dragon Festival provided opportunities for patrons to experience traditional Chinese arts, such as face painting.

Quarterly Economic Review and Press Conferences

The first press conference of the year, in January, followed the conventional format, but the Bank switched to a virtual set-up for the April edition, with reporters joining via web conference. The August

and October press conferences were presented as in-person events without the media lock-up and pre-recorded aspects. In all cases, the press conference was livestreamed on the Bank's social media channels, with the Governor responding to questions posed by the online audience.

Caribbean Economic Forum

After initially being postponed due to the COVID-19 pandemic, the Caribbean Economic Forum, usually the signature event of the Bank's Distinguished Visiting Scholar programme, was reconceptualised as a series of virtual forums, the first of which was held in June. Entitled "COVID and Economic Policy: Protecting Jobs, Businesses, and the Economy", the event featured four regional central bank governors on a public stage for the first time ever: Cleviston Haynes (Central Bank of Barbados), Timothy Antoine (Eastern Caribbean Central Bank), Dr. Gobind Ganga (Bank of Guyana), and Richard Byles (Bank of Jamaica). The Governors reflected on how the pandemic had impacted their respective jurisdictions, and shared how they had adjusted their respective monetary and economic policies to lighten the burden on the region's people, and keep their economies afloat.

Over the next six months, five additional forums were staged: "Reviving Caribbean Tourism" (July), "The Future of Work is Here" (August), "Adjusting to the Post-COVID-19 Economy" (September), "How to Digitise an Economy" (October), and "Repositioning Caribbean Economies: Lessons from 2020" (December), each featuring a distinguished panel of regional and international experts. The series was broadcast live or tape-delayed to thousands of people across the Caribbean and the Americas via more than

a dozen terrestrial television stations, CARIBVISION, and online via One Caribbean Media television as well as livestreamed on the Bank's website, Facebook page and YouTube channel.

Reviving Caribbean Tourism

The Bank enlisted the expertise of Jamaica's Minister of Tourism, the Honourable Edmond Bartlett; Sue Springer, Director of Corporate and Government Relations at the Caribbean Council in the UK; Patricia Affonso-Dass, President of the Caribbean Hotel and Tourism Association; and Professor Clive Landis, Chair of the University of the West Indies COVID-19 task force to examine the topic.

The Future of Work is Here

The already changing nature of work was further shaken up by the pandemic and the resulting national shutdown, which forced many businesses and their employees to resort to remote work. Given this disruption, a panel comprising Wayne Chen, President of the Caribbean Employers' Confederation; Dr. Rochelle Haynes, a UK-based Barbadian Human Resources Expert; and Dr. Carmen Pagés-Serra, the Chief of the Labour Markets Division of the InterAmerican Development Bank, who was originally scheduled to be the Bank's 2020 Distinguished Visiting Fellow, was invited to weigh in. The discussion's main takeaway was that in the new world of work the focus must be on productivity and outcomes, rather than command and control, especially given the shift away from the traditional office setting.

Adjusting to the Post-COVID-19 Economy

Four international economists with Caribbean connections – Dr. Peter Blair, a Bahamian-born Assistant Professor at Harvard University; Dr. Wendell Samuel, the Deputy Division Chief of the IMF's Western Hemisphere Department (Dominica); Dr. Dillon Alleyne, Deputy Director of the Economic Commission for Latin America and the Caribbean (Guyana); and Dr. Eric Strobl, a Professor of Environmental and Climate Economics at the University of Bern, Switzerland who has conducted extensive work in the region – took part in a robust discussion about the future of Caribbean economies, which included calls for reforms to the region's educational systems and for diversification away from tourism as the economic mainstay.

How to Digitise an Economy

Rwanda's Minister of ICT and Innovation, the Honourable Paula Ingabire, shared the remarkable story of her country's digitisation experience, while some of the steps being undertaken thus far in the Caribbean were shared by the Honourable Akilah Byron-Nisbett, Minister of Health, ICT, Entertainment, Entrepreneurship, and Talent Development for St. Kitts and Nevis; and Rodney Taylor, Director of the Data Processing Department in Barbados' Ministry of Innovation, Science, and Smart Technology.

Repositioning Caribbean Economies: Lessons from 2020

The 2020 series finale, held in early December, served as the event that brought it all together. "Repositioning Caribbean Economies: Lessons from 2020" featured two regional prime ministers – the Honourable Mia Amor Mottley of Barbados and the Honourable Ralph Gonsalves of St. Vincent and the Grenadines, who was at the time also the Chairman of CARICOM, as well as Alejandro Werner, the Director of the International Monetary Fund's Western Hemisphere Department. The panellists emphasised how important regionalism and working together were to the Caribbean's survival, as underscored by the pandemic.

An Innovative Communications Programme Reaps Success

The COVID-19 pandemic necessitated a change in the way the Bank approached its public outreach efforts as well as its overall communications. Rather than a reduced schedule of events, however, the Bank's events calendar expanded, resulting in a full slate of activities which attracted even wider audiences.

The Bank increased its use of social media to promote its activities, share useful information, and amplify its messages. Its numerous events, including the quarterly press conference, six Caribbean Economic Forums, the Sir Winston Scott Memorial Lecture, the launch of the glow-in-the-dark coin, and the Financial Stability Report interviews, along with a number of the Governor's speeches were either livestreamed or uploaded to the Bank's Facebook page and YouTube channel, as well as shared via Twitter. Instagram was used to share excerpts from many of these events.

In addition to video, graphics and infographics were also posted on the various platforms, providing at-a-glance information on a range of topics. Social media also proved effective in promoting the Bank's events and activities, and sharing information related to its policies. By the end of the year, the Bank had well exceeded its 2020 targets for growth in followers, including more than doubling its followers on Instagram. Feedback from our online community has been gratifying:

"The Caribbean Economic Forum has been a welcomed addition to the One Caribbean television programme line-up, providing a perfect complement to our daily offering of news and weather from the region. During these challenging economic times, our viewers in the U.S., Canada and throughout the Caribbean are hungry for a first-hand perspective on the financial health of the region. The Caribbean Economic Forum provides this and more"

Mark Walton, President, Sales and Marketing, One Caribbean Television

Sir Winston Scott Memorial Lecture

For the first time in its 45-year history, the Sir Winston Scott Memorial Lecture was presented as a virtual event. In adapting to the new approach, the format was changed to an interview rather than a lecture, with Governor Haynes first engaging with the speaker, Dr. Ngozi Okonjo-Iweala, Chair of the Board of the Global Alliance for Vaccines and Immunisation (GAVI), and a shortlisted candidate for the post of Director-General of the World Trade Organisation. She was confirmed in the Director-General post in February 2021.

Governor Haynes and Dr. Okonjo-Iweala held an hour-long conversation on "International Cooperation in the Time of COVID", touching on both the need for a global response to the pandemic and the distribution of the vaccine. The broader issues of the rise of anti-globalisation sentiment and protectionism were also raised. The event was broadcast live on CBC TV8 and livestreamed on the Bank's social media channels. Audience feedback was positive, with many complimenting both the new format and the substance of the discussion.



Dr. Ngozi Okonjo-Iweala was the featured presenter for the 45th Sir Winston Scott Memorial Lecture in November. She later became the first female and first African Director-General of the World Trade Organisation.

Domestic Financial Institutions Conference

The 11th Domestic Financial Institutions Conference was originally planned for April, but was called off when it became apparent that the virus would likely affect Barbados. It was later reconceived as a series of shorter online seminars, each of which focussed on a single issue. Sessions were held in July, August, and September: “Mitigating the Impact of Climate Change: A Financial Sector Perspective”, “Customer Due Diligence, Reporting Obligations, and Monitoring”, and “The Psychosocial Impact of COVID-19”. The public was invited to register for the second event, resulting in more than 200 documented participants. All three sessions were recorded and posted on the Bank’s website, Facebook page, and YouTube channel.

Annual Review Seminar

The Bank marked the 40th anniversary of its Annual Review Seminar by hosting it as a virtual event. Held over a four-day period, the seminar provided a unique forum for presentations and discussions on topics such as digital currencies, renewable energy, unemployment and the labour market, fiscal financing and the economics of media advertising, among others. The keynote panel discussion featured the Bank’s Deputy Governor, Alwyn Jordan, along with Dr. Justin Ram and Ian Durant, the former and Acting Directors of Economics at the Caribbean Development Bank, respectively, and Dr. Simon Naitram, who discussed “COVID-19 in the Caribbean: Challenges, Outlook, and Policy Recommendations”.

Financial Stability Report

The 2019 Financial Stability Report, which the Bank publishes jointly with the Financial Services Commission, was released at the end of September. Cognisant that the full report could be a daunting read for laypersons, the Bank sought to publicise the findings and make them easier for the broader Barbadian population to digest through the production of four interviews: an overview of the findings; a look at the performance of the commercial banking sector; an analysis of the findings of the stress tests that were conducted; and a discussion on household debt, which was covered as a research note in the report. Special graphics and infographics were prepared to illustrate payments-related information contained in the report and they, like the interviews, were posted on the Bank’s social media channels.

Speeches

Despite the lockdown, Governor Haynes delivered speeches at several events organised by stakeholders. Early in the year, he spoke at the opening of the IMF’s safeguards assessment workshop, and addressed BARAIFA on the topic of financial inclusion. Later, with the pandemic taking an economic toll on the island, he delivered remarks on this issue to both the Rotary Club of Barbados South and actuarial firm, Eckler. Education sessions on the economy were also conducted for the Barbados Association of Retired Persons (BARP), and the Young Economists’ Association.



Governor Haynes fields questions from members of BARAIFA following his presentation on “Financial Inclusion and the Financial Sector” in February.

4. PUBLICATIONS AND PAPERS

Papers Presented at Conferences

Alleyne, Laron, Julian Jones, and Anton Belgrave. *“Impact of Climate Change on Select Agricultural Production in Barbados.”* 40th Central Bank of Barbados Annual Review Seminar, July 28-31, 2020.

Beckles, Jamila. *“The Impact of the Sectoral Distribution of Credit on the External Current Account in Barbados.”* 40th Central Bank of Barbados Annual Review Seminar, July 28-31, 2020.

Belgrave, Anton. *“Non-Performing Loans and COVID-19: The Case of Commercial Banks.”* 40th Central Bank of Barbados Annual Review Seminar, July 28-31, 2020.

Brathwaite-Phillips, Lisa and Mahalia Jackman. *“Barbados Trending.”* 40th Central Bank of Barbados Annual Review Seminar, July 28-31, 2020.

Carter, Justin. *“The Influence of Public Policy on Renewable Energy.”* 40th Central Bank of Barbados Annual Review Seminar, July 28-31, 2020.

Lawrence, Nkenge. *“The Role of Innovation in Resilience Building for Small Economies.”* 40th Central Bank of Barbados Annual Review Seminar, July 28-31, 2020.

Lescott, Alexis. *“Accommodation Trends in Barbados.”* 40th Central Bank of Barbados Annual Review Seminar, July 28-31, 2020.

Book Review

Wilson, Karise. *“The Bitcoin Standard: The Decentralized Alternative to Central Banking”*, by Saifedean Ammous. **CBB Book Review Series, 2020.**

5. ADOPTION OF FINANCIAL STATEMENTS

Approval of the Annual Consolidated Financial Statements 2020

These consolidated financial statements of the Central Bank of Barbados have been prepared in accordance with International Financial Reporting Standards (IFRS).

The Bank has recorded an accumulated deficit of \$1,613 million as at December 31, 2020. This deficit originated during 2018 and was caused by significant non-recurring restructuring costs of \$1,693 million. Management has concluded that the going concern assumption is appropriate for the Bank. The Bank continues to perform its statutory purpose and management has reasonable expectations that the Bank will continue to be profitable and generate cash flows to meet its operating requirements over 12 months from the reporting date. The sole shareholder, in conjunction with the Bank, is developing a recapitalisation plan.

Management has also concluded that the consolidated financial statements fairly present the Bank's consolidated financial position, financial performance and cash flow, and that it has complied with IFRS.

Consolidated Statement of Financial Position

Total assets increased by \$1,118.6 million to reach \$3,586.9 million. The reserve of external assets increased by \$1,180.1 million largely representing inflows under the IMF-EFF and other inflows from international funding agencies. Local assets declined by \$61.4 million reflecting the decrease in Advances to Government during the year.

Commercial banks' deposits at the Bank increased by \$565.1 million, reflecting the continued growth of liquidity in the banking system. Government deposits increased by \$337.7 million while notes and coins in circulation increased by \$61.3 million.

In December 2020, the Central Bank of Barbados Act 2020-30 was passed which, among other things, increased the authorised capital of the Bank to \$25.0 million and established rules for the allocation of the distributable earnings for the year. In accordance with these provisions, the Bank has increased its paid-

up capital from \$2.0 million to \$25.0 million and has increased the general reserve by \$3.5 million.

Consolidated Statement of Income and Comprehensive Income

The Bank continued its risk-averse approach to securities management and, accordingly, investments are not held primarily to maximize earnings but to protect capital in order to maintain economic stability and support Government policy.

Earnings before interest, operating costs and impairment charges decreased by \$2.1 million. This was a net result of realised gains on the sale of foreign securities (\$4.2 million) and increased commissions and fees (\$3.1 million) arising from the Government's resumption of debt service. These increases were offset by decreases in interest income (\$6.5 million) due to the decreased yields internationally and the recognition of credit adjusted effective interest rate on originated credit impaired Government of Barbados securities.

Operating Expenses

Total expenses decreased by \$10.9 million. Administrative expenses contracted by \$2.4 million because of less staff-related activity in 2020 and retirement benefits also declined as a result of the non-recurring staff voluntary contributions of \$2.8 million to the plan in 2019. These reductions were offset by increased interest costs related to charges on the IMF-EFF.

Additionally, the Bank incurred a write-off of \$4.3 million of fixed assets. A net credit loss recovery of \$8.5 million was also recorded on local securities, as opposed to a charge of \$2.1 million in 2019.

Other Comprehensive Income

Other comprehensive income amounted to \$20.1 million, primarily due to unrealised gains on securities up from \$11.0 million in 2019 to \$20.4 million in 2020. The retirement benefit adjustment recorded a deficit of \$0.3 million in 2020, compared with a surplus of \$10.4 million in 2019.

Results for the Year

During the year, the Bank recorded net income of \$24.0 million for the year compared with \$15.3 million in 2019, while total comprehensive income amounted to \$44.1 million compared with \$26.7 million in 2019.

Approval of Financial Statements

Annexed to this report are the Independent Auditor's Report, Consolidated Statement of Financial Position as at December 31, 2020, the Consolidated Statement of Income and Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows and notes to the consolidated financial statements. On March 25, 2021, the Board of Directors, on recommendation from the Audit Committee, approved the Consolidated Financial Statements for the year ended December 31, 2020.



CENTRAL BANK OF BARBADOS

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2020

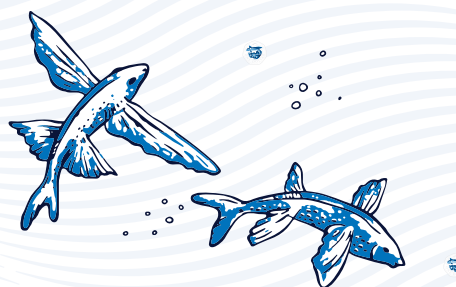




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Independent auditor's report

To the Board of Directors of the Central Bank of Barbados

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Central Bank of Barbados (the Bank) and its subsidiaries (together 'the Group') as at December 31, 2020, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at December 31, 2020;
- the consolidated statement of income and comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other matter

This report is made solely to the Bank's board of directors, as a body, in accordance with Section 67 of the Central Bank of Barbados 2020-30 Act. Our audit work has been undertaken so that we might state to the Bank's board of directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law and subject to any enactment or rule of law to the contrary, we do not accept or assume responsibility to anyone other than the Bank and the Bank's board of directors as a body, for our audit work, for this report, or for the opinion we have formed.

A handwritten signature in black ink that reads "PricewaterhouseCoopers SA".

Bridgetown, Barbados
March 25, 2021

Consolidated Statement of Financial Position

As at December 31, 2020

(Expressed in BDS \$'000)

ASSETS

	NOTES	2020	2019
RESERVE OF EXTERNAL ASSETS:			
Balances Held Abroad	3	1,000,845	531,862
Foreign Notes and Coins		15,272	6,987
Foreign Securities	4	1,599,469	888,164
		<u>2,615,586</u>	<u>1,427,013</u>
International Monetary Fund:			
Reserve Tranche	5	34,801	34,994
Holdings of Special Drawing Rights	5	20,463	28,771
		<u>55,264</u>	<u>63,765</u>
Total Reserve of External Assets		<u>2,670,850</u>	<u>1,490,778</u>
LOCAL ASSETS:			
Securities:			
Barbados Government Treasury Bills	6	208,841	207,066
Barbados Government Debentures	6	423,247	420,347
		<u>632,088</u>	<u>627,413</u>
Fixed Deposits	7	10,140	10,140
		<u>642,228</u>	<u>637,553</u>
Advances:			
Government	8	135,340	192,405
Investment in Associate	9	12,200	11,436
Other Investments	9	1,306	1,306
Property, Plant and Equipment	10 (a)	99,517	106,521
Other Assets	11	25,441	28,237
		<u>916,032</u>	<u>977,458</u>
Total Assets		<u>3,586,882</u>	<u>2,468,236</u>

See accompanying notes to accounts.

Consolidated Statement of Financial Position

As at December 31, 2020

(Expressed in BDS \$'000)

LIABILITIES, CAPITAL AND DEFICIT

	NOTES	2020	2019
LIABILITIES:			
Notes and Coins in Circulation	12	890,001	828,686
Deposits:			
Government		825,535	487,852
Banks		2,628,897	2,063,778
Financial Institutions		2,190	5,703
Other		124,013	115,983
	13	3,580,635	2,673,316
Other Liabilities:			
Allocation of Special Drawing Rights	14	176,911	179,418
Loan - International Monetary Fund	14	384,744	292,646
Retirement benefit obligation	19	13,456	17,312
Other	15	103,224	83,027
		678,335	572,403
Total Liabilities		5,148,971	4,074,405
CAPITAL AND DEFICIT:			
Authorised capital: BDS\$25,000,000			
Paid up capital: Government of Barbados	16	25,000	2,000
Contributed Surplus	16	1,555	10,055
Fair Value Reserve	16	27,309	6,936
Retirement Benefit Reserve	19	(30,981)	(30,668)
Accumulated Deficit		(1,613,423)	(1,619,492)
General Reserve	16	28,451	25,000
Net Capital and Deficit		(1,562,089)	(1,606,169)
		3,586,882	2,468,236

See accompanying notes to accounts.

Approved on behalf of the Board of Directors on March 25, 2021

..... Governor

..... Financial Controller (Ag.)

Consolidated Statement of Income and Comprehensive Income

For the year ended December 31, 2020

(Expressed in BDS \$000)

	NOTES	2020	2019
INCOME:			
Interest:			
Treasury Bills		7,848	9,264
Advances		5,215	3,740
Deposits		2,209	5,232
Securities		42,244	45,811
		57,516	64,047
Commissions and Fees		7,515	4,427
Other Income	18	1,987	1,754
Share of profit of associate		764	1,463
Net gain on FX currency revaluation		5,122	7,225
Gain on disposal of fixed assets		19	6
Premiums		22	25
Recoveries		-	298
Gain on Sale of Foreign Securities		4,499	304
Earnings before interest, operating costs and impairment charges		77,444	79,549
EXPENSES:			
Administrative		13,795	16,192
Claims		84	135
Depreciation	10(a)	5,714	5,121
Interest		6,184	5,269
Minting of Coins		522	678
Printing of Notes		1,474	2,144
Retirement Benefits	19	3,523	7,355
Salaries and Allowances		25,894	25,339
Write off of Fixed Assets	10(a)	4,342	-
Write off of Other Assets		422	-
Credit Loss (Recovery) Expense	21	(8,530)	2,051
Total Expenses		53,424	64,284
Net income for the year		24,020	15,265
Other Comprehensive Income:			
Unrealised Gains on Securities at FVTOCI		20,373	11,001
Retirement Benefit adjustment	19	(313)	10,447
Total Other Comprehensive Income		20,060	21,448
Total Other Comprehensive Income for the year		44,080	36,713

See accompanying notes to accounts.

Consolidated Statement of Changes in Equity

For the year ended December 31, 2020
(Expressed in BDS \$'000)

	Paid up Capital	Contributed Surplus	Fair Value Reserve	Retirement Benefit Reserve	Accumulated Deficit	General Reserve	Total
Balance brought forward							
– January 1, 2019	2,000	10,055	(4,065)	(41,115)	(1,634,757)	25,000	(1,642,882)
Net Income for the Year	-	-	-	-	15,265	-	15,265
Fair value adjustment	-	-	11,001	-	-	-	11,001
Pension adjustment	-	-	-	10,447	-	-	10,447
Balance carried forward							
– December 31, 2019	2,000	10,055	6,936	(30,668)	(1,619,492)	25,000	(1,606,169)
Net Income for the Year	-	-	-	-	24,020	-	24,020
Transfer to Paid up Capital (Note 16)	23,000	(8,500)	-	-	(14,500)	-	-
Transfer to General Reserve (Note 16)	-	-	-	-	(3,451)	3,451	-
Fair value adjustment	-	-	20,373	-	-	-	20,373
Pension adjustment	-	-	-	(313)	-	-	(313)
Balance carried forward							
– December 31, 2020	25,000	1,555	27,309	(30,981)	(1,613,423)	28,451	(1,562,089)

See accompanying notes to accounts.

Consolidated Statement of Cash Flows

For the year ended December 31, 2020

(Expressed in BDS \$'000)

	NOTES	2020	2019
Cash flows from operating activities			
Net Income for the year		24,020	15,265
<i>Adjustments for:</i>			
Depreciation		5,714	5,121
Gain on sale of fixed assets		(19)	(6)
Share of profit of Associate		(764)	(1,463)
Dividends received		-	2,740
Retirement Benefit Adjustment		(4,169)	(3,047)
Net unrealized gain on FX currency revaluation		5,744	7,952
Write off of Fixed Assets		4,342	-
Credit Loss (recovery) expense		(8,530)	2,051
Write off of other Assets		422	-
Operating profit before working capital changes		26,760	28,613
Decrease in other assets		2,374	14,976
Net increase in foreign securities	4	(691,063)	(320,086)
Decrease in Reserve Tranche		682	2,640
Decrease in Holdings of Special Drawing Rights		8,678	7,378
Net decrease in local securities		3,986	763
Net decrease (increase) in government advances		57,065	(110,254)
Increase in deposits		907,319	132,108
Increase in other liabilities		20,197	182,868
Net cash from (used in) operating activities		335,998	(60,994)
Cash flows from investing activities			
Purchase of fixed assets	10a	(3,052)	(3,788)
Proceeds from sale of fixed assets		19	8
Net cash used in investing activities		(3,033)	(3,780)
Cash flows from financing activities			
Increase in notes and coins in circulation		61,315	44,994
Decrease in allocation of Special Drawing Rights		(5,022)	(13,543)
Proceeds from loan – International Monetary Fund		88,010	187,708
Net cash from financing activities		144,303	219,159
Net increase in cash and cash equivalents		477,268	154,385
Cash and cash equivalents at beginning of year		538,849	384,464

Consolidated Statement of Cash Flows

For the year ended December 31, 2020

(Expressed in BDS \$'000)

	<u>NOTES</u>	<u>2020</u>	<u>2019</u>
Cash and cash equivalents at end of year		1,016,117	538,849
Cash and cash equivalents comprise:			
Current Account and Short Term Deposits	3	1,000,845	531,862
Foreign Notes and Coins		15,272	6,987
		<u>1,016,117</u>	<u>538,849</u>

See accompanying notes to accounts.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

1. BUSINESS OF THE CENTRAL BANK

The Central Bank of Barbados (the “Bank”) was incorporated under the Central Bank of Barbados Act CAP 323C (the former Act) and is responsible for the administration of the Financial Institutions Act, CAP 324A.

On December 14, 2020, Parliament of Barbados repealed and replaced the former Act with the Central Bank of Barbados Act 2020-30 (“the new Act”). The purpose of the new Act is to strengthen the Bank’s governance and independence while maintaining accountability. Another purpose of the new Act is to ensure the compliance of the Bank with internationally recognised accounting standards and other related matters.

The Bank is domiciled in Barbados and its registered office is the Tom Adams Financial Centre, Spry Street, Bridgetown, Barbados. The sole shareholder of the Bank is the Government of Barbados.

These statements represent the consolidated financial statements of the Bank and its subsidiaries (collectively, the “Bank”) for the year ended December 31, 2020.

The primary objective of the Bank as set out in the new Act is to maintain the value of the currency. The secondary objective is to promote financial stability which is conducive to the orderly and sustained economic development of Barbados.

The Bank has recorded negative capital and reserves of \$1,562,089 as at December 31, 2020. This deficit was caused primarily by significant non-recurring costs in 2018 of \$1,693,255, which included the first time implementation of IFRS9 and restructuring costs reflecting statutory initiatives of Government, namely the write off of Advances to Government under the Financial Management and Audit (Amendment) Act and the institution of a debt exchange which resulted in the derecognition of Government treasury bills and debentures under the Debt Holder (Approval of Debt Restructuring) Act.

The deficit does not affect the Bank’s ability to carry out its statutory purpose and management has reasonable expectations that the Bank will be profitable and generate cash flows to meet its operating requirements over the twelve months from the reporting date.

Management has concluded that the consolidated financial statements fairly present the Bank’s consolidated financial position, financial performance and cash flow, and that it has complied with International Financial Reporting Standards (IFRS). There are no pending legal or regulatory proceedings against the Bank that may, if successful, result in claims that are unlikely to be satisfied; and no changes in legislation or government policy is expected to adversely affect the Bank. The Bank may only be wound-up by an Act of Parliament and the sole shareholder in conjunction with the Bank, is developing a recapitalization plan under the conditionality of an International Monetary Fund – Extended Fund Facility (IMF-EFF).

The Government has also met and surpassed all quantitative targets associated with the IMF-EFF which include certain fixed deficit thresholds, reserve levels and debt limits.

In December 2019, S&P raised its long and short-term foreign currency holdings ratings for Barbados to ‘B-/B’ from ‘SD/SD’ and assigned ‘B-’ foreign currency issue ratings to the foreign currency debt delivered in the exchange. This rating has been maintained in 2020.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

1. BUSINESS OF THE CENTRAL BANK, continued

On September 15, 2020, the Governor General announced in the 'Throne Speech' at the State opening of Parliament that the Government will modify existing Credit Funds held on the books of the Bank with the aim to create an Industrial Transformation Fund. This proposal aligns with discussions that the Bank has had with the International Monetary Fund to divest itself of what are perceived as "quasi-fiscal" activities that might result in financial losses to the Bank. Additionally, the new Act mandates that the divestment happens within two years of its issuance. At the reporting date, the Bank had not yet determined the nature or timing of the divestment.

In November 2020 the Bank consulted with an IMF mission team to discuss recapitalisation. The purpose of the mission was to analyze the Bank's revenue generating capacity and capital needs to achieve policy solvency in the near to medium term through a government recapitalization plan. The Bank will continue these discussions during 2021.

Management has assessed the effect of Covid-19 on its operations and have concluded that there is no significant impact on the Bank's ability to operate as a going concern or meet its operating objectives as mentioned earlier.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Preparation

The consolidated financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements comprise the consolidated statements of financial position, income and comprehensive income, changes in equity, cash flows and related notes.

The consolidated financial statements have been prepared on the historical cost basis of accounting, modified to include financial assets that are carried at fair value. The measurement of certain foreign securities is considered as "fair value through other comprehensive income (FVOCI)" under IFRS 9 with the resulting unrealised gains or losses carried forward in the consolidated Statement of Financial Position.

b) Basis of Consolidation

These consolidated financial statements comprise the financial statements of the Bank and its wholly owned subsidiaries which are the Credit Guarantee Scheme for Small Business and the Export Credit Insurance & Guarantee Scheme. The financial statements of the Bank's subsidiaries are prepared for the same reporting year as the Bank. All intra-group balances, transactions, income and expenses are eliminated in full.

Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Bank has the power to govern the financial and operating policies, generally accompanying a shareholding of more than 50% of net assets. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Bank controls another entity.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

2. SIGNIFICANT ACCOUNTING POLICIES, continued

b) Basis of Consolidation, continued

Subsidiaries, continued

Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank. Currently, there are no non-controlling interests as the subsidiaries being consolidated are owned 100% by the Bank.

Prior to December 14, 2020, the former Act empowered the Bank, with the approval of the Minister of Finance, to acquire, hold and sell shares or other securities of any statutory body or company registered under the Companies Act for the purpose of promoting the development of a money or securities market or for financing the economic development of Barbados. The Bank has interests in a number of institutions – the Industrial Credit Fund, the Barbados Stock Exchange, the Barbados Deposit Insurance Scheme and the Barbados Automated Clearing House Services Incorporated.

Except for The Barbados Deposit Insurance Corporation (BDIC), the Bank has a minority financial interest in the entities noted above. The BDIC was established for the protection of depositors in the domestic financial system. While the share capital was paid up by the Bank, the BDIC was always conceived to be a separate and independent institution with its own mandate and operates as such. The financial statements of the BDIC have not been consolidated, as the Bank is deemed not to have control over this institution as the majority of Board members are appointed by the Ministry of Finance.

c) Investment in Associate

An associate is an entity over which the Bank has significant influence but not control, generally accompanied by a shareholding of between 20% and 50% of the voting rights. Investment in associate is accounted for by the equity method of accounting and is initially recognised at cost.

The Bank's share of its associate's post-acquisition profits or losses is recognised in the consolidated statement of income and comprehensive income, and its share of post-acquisition movements in other comprehensive income or loss is recognised in other comprehensive income or loss with a corresponding adjustment to the carrying amount of the investment.

The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Bank determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the consolidated statement of income and comprehensive income.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

2. SIGNIFICANT ACCOUNTING POLICIES, continued

c) Investment in Associate, continued

Unrealised gains on transactions between the Bank and its associates are eliminated to the extent of the Bank's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. For the preparation of the consolidated financial statements, common accounting policies for similar transactions and other events in similar circumstances are used.

The Bank's investment in the Industrial Credit Fund is 13.3% and it has been classified as an associate because the Bank exhibits significant influence over its operations. Specifically the Bank executes the day to day management of the Fund including determination of policy.

d) Leases

Bank as a Lessee

The Bank assesses whether a contract is or contains a lease, at inception of the contract. The Bank recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Bank recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease.

Lease payments included in the measurement of the lease liability comprise fixed lease payments. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Bank remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

The lease term, payments or lease contract is modified.

The Bank did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

2. SIGNIFICANT ACCOUNTING POLICIES, continued

d) Leases, continued

Bank as a Lessee, continued

Whenever the Bank incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Bank expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Bank applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the 'Property, Plant and Equipment' policy.

Bank as a lessor:

Leases in which the bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the Consolidated Statement of Income and Comprehensive Income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased assets and recognised over the lease term on the same basis as rental income.

e) Financial Instruments: Initial Recognition

Date of Recognition

Financial assets and liabilities, with the exception of advances and deposits, are initially recognized on the settlement date, which is the date that an asset is delivered to or by the Bank. This includes regular trades, purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Advances and deposits are recognized when funds are transferred to the customers' accounts.

Initial Measurement of Financial Instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments. Financial instruments are initially measured at their fair value except in the case of financial assets and financial liabilities recorded at Fair Value through the Profit and Loss (FVPL). Transaction costs are added to, or subtracted from this amount. Trade receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Bank accounts for the Day 1 profit or loss.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$000)

2. SIGNIFICANT ACCOUNTING POLICIES, continued

e) Financial Instruments: Initial Recognition, continued

Day 1 Profit or Loss

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Bank recognizes the difference between the transaction price and fair value in income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognized in profit or loss when the inputs become observable, or when the instrument is derecognized.

Measurement Categories of Financial Assets and Liabilities

From January 1, 2018, the Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost
- Fair Value through Other Comprehensive Income (FVOCI)
- Fair Value through Profit or Loss (FVPL)

The Bank may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies between assets and related liabilities.

f) Financial Assets and Liabilities

Balances Held Abroad, Advances and Financial Investments at Amortised Cost

The Bank only measures balances held abroad, advances and other financial investments at amortised cost if both of the following conditions are met:

The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below:

Business Model Assessment

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

2. SIGNIFICANT ACCOUNTING POLICIES, continued

f) Financial Assets and Liabilities, continued

The Bank's business model is assessed both on an instrument-by-instrument basis and at a higher level of portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel.
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

SPPI Test

As a second step of its classification process the Bank assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To perform the SPPI assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

g) Debt Instruments at FVOCI

The Bank applies the new category under IFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset meet the SPPI test.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

2. SIGNIFICANT ACCOUNTING POLICIES, continued

g) Debt Instruments at FVOCI, continued

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in Other Comprehensive Income ("OCI"). Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost. Where the Bank holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

h) Equity Instruments at FVOCI

Upon initial recognition, the Bank elects to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading.

Gains and losses on these equity instruments are never recycled to profit. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in OCI. Equity instruments at FVOCI are not subject to an impairment assessment.

i) Borrowed Funds

After initial measurement, borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on borrowed funds, and costs that are an integral part of the effective interest rate.

j) Financial Assets and Financial Liabilities at FVPL

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met.

Such designation is determined on an instrument-by-instrument basis:

- The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis, or;
- The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or;

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

2. SIGNIFICANT ACCOUNTING POLICIES, continued

j) Financial Assets and Financial Liabilities at FVPL, continued

- The liabilities or one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Financial assets and financial liabilities at FVPL are recorded in the consolidated statement of financial position at fair value.

Changes in fair value are recorded in profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the Effective Interest Rate (EIR), taking into account any discount/premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

k) Reclassification of Financial Assets and Liabilities

The Bank does not reclassify its financial assets subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets. Financial liabilities are never reclassified.

l) Derecognition of Financial Assets and Liabilities

Derecognition due to Substantial Modification of Terms and Conditions

The Bank derecognises a financial asset, such as advances, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new advance, with the difference realised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit impaired (POCI).

When assessing whether or not to derecognise advances, amongst others, the Bank considers the following factors:

- Change in counterparty.
- If the modification is such that the instrument would no longer meet the SPPI criterion.

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$000)

2. SIGNIFICANT ACCOUNTING POLICIES, continued

1) Derecognition of Financial Assets and Liabilities, continued

Derecognition Other than for Substantial Modification

Financial Assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Bank also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

- The Bank has transferred its contractual rights to receive cash flows from the financial asset,

Or

- It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement.

The Bank does not have pass-through arrangements.

A transfer only qualifies for derecognition if either:

- The Bank has transferred substantially all the risks and rewards of the asset,

Or

- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and has retained control of the asset, the asset continues to be recognised only to the extent of the Bank's continuing involvement, in which case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

2. SIGNIFICANT ACCOUNTING POLICIES, continued

l) Derecognition of Financial Assets and Liabilities, continued

Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability.

The difference between the carrying value of the original financial liability and the consideration paid is recognised in the consolidated statement of income and comprehensive income.

m) Impairment of Financial Assets

Overview of the ECL principles

The Bank records an allowance for ECL on all loans and other debt financial assets not held at FVPL. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL).

The 12mECL is the portion of LTECLs that represents the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Bank considers at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

Based on the above process, the Bank allocates its assets into Stage 1, Stage 2, Stage 3 and Purchased or originated credit impaired (POCI), as described below:

- Stage 1: When assets are first recognised, the Bank recognises an allowance based on 12mECLs. Stage 1 assets also include facilities where the credit risk has improved and the asset has been reclassified from Stage 2.
- Stage 2: When an asset has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. Stage 2 assets also include facilities where the credit risk has improved and the asset has been reclassified from Stage 3.
- Stage 3: Assets considered credit-impaired. The Bank records an allowance for the LTECLs.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

2. SIGNIFICANT ACCOUNTING POLICIES, continued

m) Impairment of Financial Assets, continued

Overview of the ECL principles, continued

POCI: POCI assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Bank has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a partial derecognition of the financial asset.

The Bank calculates ECLs based on probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The Calculation of ECLs

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

- PD - The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the financial instrument has not been previously derecognised and is still in the portfolio.
- EAD - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.

The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Bank has the legal right to call it earlier. The mechanics of the ECL method are summarised below:

- Stage 1: The 12mECL is calculated as the portion of LTECLs that represents the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Bank calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$000)

2. SIGNIFICANT ACCOUNTING POLICIES, continued

m) Impairment of Financial Assets, continued

The Calculation of ECLs

- Stage 2: When an asset has shown a significant increase in credit risk since origination, the Bank records an allowance for the LTECLs. The mechanics are similar to those explained above, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- Stage 3: For assets considered credit-impaired, the Bank recognises the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
- POCI: assets are financial assets that are credit impaired on initial recognition. The Bank only recognises the cumulative changes in lifetime ECLs since initial recognition, based on a probability-weighting scenario, discounted by the credit adjusted EIR.

Significant increase in credit risk

In assessing whether the credit risk on a financial asset has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial asset as at the reporting date with the risk as at the date of initial recognition. The Bank considers many factors when assessing a financial asset for a significant increase in credit risk, including but not limited to 1) an actual or expected significant deterioration in the financial asset's credit rating; 2) significant deterioration in external market indicators of credit risk for a financial asset; or 3) existing or forecast adverse changes in the business, financial, regulatory, technological or economic environment of the counterparty that results in a significant decrease in the counterparty's ability to meet its debt obligations.

In certain cases, the Bank may consider that events identified in the definition of default are a significant increase in credit risk as opposed to a true default. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

As a consequence of COVID-19, management has re-assessed the carrying value of its assets and determined that any adjustments to ECLs would be insignificant.

Definition of default

The Bank considers a financial asset to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

- significant financial difficulty of the borrower or issuer;
- default or days past due delinquency in contractual, interest or principal payments;
- high probability of the borrower entering a phase of bankruptcy or a financial reorganization;

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

2. SIGNIFICANT ACCOUNTING POLICIES, continued

Definition of default, continued

- measurable decrease in the estimated future cash flows from the loan or the underlying assets that secure the loan;
- The restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise

Debt Instruments Measured at Fair Value through Other Comprehensive Income

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

Purchased or Originated Credit Impaired Financial Assets (POCI)

For POCI financial assets, the Bank only recognises the cumulative changes in LTECL since initial recognition in the loss allowance.

Forward Looking Information

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs, which may include:

- GDP growth
- Consumer price index and inflation
- Interest rates

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Collateral Valuation

To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as letters of credit/guarantees, real estate and other non-financial assets. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and re-assessed on an annual basis.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

2. SIGNIFICANT ACCOUNTING POLICIES, continued

n) Impairment of Non-Financial Assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less costs to sell or the value in use can be determined reliably. Non-financial assets that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

o) Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Interest Income

For financial instruments measured at amortized cost and other interest-bearing financial assets interest income is recorded using the EIR. EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income on purchased or originated credit impaired financial assets is measured using credit – adjusted EIR.

Commission, Fees and Other Income

Commission, fees and other income are accounted for on an accrual basis. Commissions represent charges on foreign currency transactions processed on behalf of customers and is based on a percentage of the transaction value.

Dividends

Dividend income is recognized when the Bank's right to receive the payment is established.

p) Foreign Currencies

The Bank's consolidated financial statements are presented in Barbados dollars, which is also the functional currency.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$000)

2. SIGNIFICANT ACCOUNTING POLICIES, continued

Transactions and Balances

Transactions in foreign currencies are initially recorded by the Bank's entities at their respective functional currency spot rates at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date. Differences arising on settlement or translation of monetary items are recognized in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively).

q) Property, Plant and Equipment

All property and equipment are stated at historical cost less accumulated depreciation, with the exception of land which is not depreciated. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised 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 measured reliably. All other repairs and maintenance are charged to the Consolidated Statement of Income and Comprehensive Income during the financial period in which they are incurred.

Depreciation on all property, plant and equipment is computed on the straight line method at rates considered adequate to write-off the cost of depreciable assets, less salvage, over their useful lives.

The annual rates used are:

Freehold buildings	1% -5%
Furniture and equipment	10%- 25%
Vehicles	20%

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

2. SIGNIFICANT ACCOUNTING POLICIES, continued

q) Property, Plant and Equipment, continued

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 asset's fair value less costs to sell and the value in use.

Gains and losses on disposal of property, plant and equipment are determined by reference to its carrying amount and are taken into account in determining net loss or gain on disposal.

r) Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

s) Balances Held Abroad and cash equivalents

Balances held abroad in the statement of financial position comprise cash at banks and short-term deposits with an original contractual maturity of three months or less, which are subject to an insignificant risk of changes in value. Short term Advances to Government are not considered cash equivalents due to the nature of these amounts.

t) Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the Consolidated Statement of Income and Comprehensive Income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

u) Pensions Benefits

The Bank operates a defined benefit pension scheme for its eligible employees. The assets of the plan are held in a separately administered fund, established by the Bank. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$000)

2. SIGNIFICANT ACCOUNTING POLICIES, continued

u) Pensions Benefits, continued

The pension benefit is based on the final salary of the employee. The pension asset or liability is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. An approximate value of the defined benefit obligation is calculated every year by independent actuaries using the projected unit credit method based on detailed calculations carried out for the most recent triennial funding valuation. Under this method, the cost of providing pensions is charged to the consolidated statement of income and comprehensive income so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries who carry out a full valuation of the plan every three years.

The pension obligation is measured as the present value of the estimated future cash outflows using interest rates of long-term government bonds that are denominated in the currency in which the benefits will be paid, and which 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 are recognized immediately in OCI. Past-service costs are recognised immediately in the consolidated statement of income and comprehensive income. The pension plan is funded by payments from the Bank, taking into account the recommendations of independent qualified actuaries. Employees were allowed to make additional voluntary contributions up to June 2019.

The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

IFRIC 14 states that the limit on the measurement of a defined benefit asset may cause a minimum funding requirement to be onerous. Normally, a requirement to make contributions to a plan would not affect the measurement of the defined benefit asset or liability. This is because the contributions, once paid, will become plan assets and so the additional net liability is nil. However, a minimum funding requirement may give rise to a liability if the required contributions will not be available to the entity once they have been paid. As a result, the minimum funding requirements need to be considered in the determination of the net balance sheet position and an onerous liability may be applicable. Based on the most recent funding valuation report as at December 31, 2018, the Scheme is not fully funded on both going concern and solvency bases. As such, a statutory minimum funding requirement exists at the measurement date.

v) Significant Accounting Judgements and Estimates

The preparation of consolidated financial statements in conformity with IFRS requires management to make certain significant estimates and judgements that affect amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from these estimates.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$000)

2. SIGNIFICANT ACCOUNTING POLICIES, continued

v) Significant Accounting Judgements and Estimates, continued

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.

The estimates and judgements that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment Losses on Financial Assets

The measurement of impairment losses both under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's credit grading model, which assigns a PD to the individual grades.
- The Bank's criteria for assessing if there has been a significant increase in credit risk, and therefore allowances for financial assets should be measured on a LTECL basis and the qualitative assessment.
- Development of ECL models, including the various formulas and the choice of inputs.
- Determination of associations between macroeconomic scenarios, economic inputs such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary. Also see Note 21.

IMF Loan Valuation

Management considers the current IMF loan to be within the normal course of the IMF's financing to Central Banks and is considered to be at market rate. Management therefore assumes that funding is under market related conditions as required.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

2. SIGNIFICANT ACCOUNTING POLICIES, continued

w) International Monetary Fund (IMF) Related Balances

The Bank transacts with the IMF in its own right rather than as the depository of the Government. All transactions between the Bank and the IMF have been included in these consolidated financial statements on that basis.

The Bank records the quota with the IMF as an asset and the amount payable to the IMF for quota is recorded as a liability of the Bank. The cumulative allocation of Special Drawing Rights (SDRs) by the IMF is treated as a liability. All the IMF related assets and liabilities are recognized at amortised cost using the effective interest rate method. Exchange gains and losses arising on revaluation of IMF assets and liabilities at the exchange rate applying at reporting date as published by the IMF are recognised in the consolidated statement of income and comprehensive Income.

The Bank also Guarantees repayment of certain loans received by the Government from the IMF.

x) Notes and Coins in Circulation

Currency issued by the Bank represents a claim on the Bank in favour of the holder. The liability for Currency in Circulation is recorded at face value in the consolidated statement of financial position.

y) Trust and Custodial Activities

Amounts administered by the Bank under custodial and administration arrangements totaled \$19,537 in 2020 (\$190,452 in 2019). \$19,537 (2019: \$172,155) of these amounts have been redeposited with the Bank. Also see Note 13.

z) New and revised standards and interpretations

The Bank applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 3: Definition of a Business

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Bank, but may impact future periods should the Bank enter into any business combinations.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

2. SIGNIFICANT ACCOUNTING POLICIES, continued

z) New and revised standards and interpretations, continued

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated financial statements of the Bank as it does not have any interest rate hedge relationships.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Bank.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework. The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Bank.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Bank.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$000)

2. SIGNIFICANT ACCOUNTING POLICIES, continued

z) New and revised standards and interpretations, continued

IAS 1- Presentation of Financial Statements (“IAS 1”)

On 23 January 2020, the IASB issued ‘Classification of Liabilities as Current or Non-current (Amendments to IAS 1)’ providing a more general approach to the classification of liabilities under IAS 1 based on the contractual arrangements in place at the reporting date. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the ‘settlement’ of a liability. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Adoption of these amendments is not expected to have a significant impact to the Bank.

IAS 16- Property, Plant and Equipment (“IAS 16”)

On 14 May 2020, the IASB issued ‘Property, Plant and Equipment — Proceeds before Intended Use (Amendments to IAS 16)’ regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. The amendment prohibits a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Adoption of these amendments is not expected to have a significant impact to the Bank.

Annual improvements cycle 2018-2020

On 14 May 2020, the IASB issued ‘Annual Improvements to IFRS Standards 2018–2020’. The pronouncement contains amendments to four International Financial Reporting Standards (IFRSs) as result of the IASB’s annual improvements project. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Adoption of these amendments is not expected to have a significant impact to the Bank.

IAS 37- Provisions, Contingent Liabilities and Contingent Assets (“IAS 37”)

On 14 May 2020, the IASB issued ‘Onerous Contracts — Cost of Fulfilling a Contract (Amendments to IAS 37)’ amending the standard regarding costs a company should include as the cost of fulfilling a contract when assessing whether a contract is onerous. The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Adoption of these amendments is not expected to have a significant impact to the Bank.

IFRS 3 – Business Combinations (“IFRS 3”)

On 14 May 2020, the IASB issued ‘Reference to the Conceptual Framework (Amendments to IFRS 3)’ with amendments to IFRS 3 ‘Business Combinations’ that update an outdated reference in IFRS 3 without significantly changing its requirements. The amendments are effective for annual reporting periods beginning on or after 1 January 2022.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$000)

2. SIGNIFICANT ACCOUNTING POLICIES, continued

z) New and revised standards and interpretations, continued

IFRS 3 – Business Combinations (“IFRS 3”)

There are no other new or amended IFRS's or IFRIC interpretations that are not yet effective that would be applicable and expected to have a material impact on the Bank.

3. BALANCES HELD ABROAD

Balances held abroad comprise:

	2020	2019
Current accounts	325,224	268,956
Short-term deposits	670,880	258,213
Accrued Income	4,741	4,693
	<u>1,000,845</u>	<u>531,862</u>

Current accounts and short-term deposits with foreign banks earn interest at rates varying between 0.07% and 0.59% (2019: 1.52% and 1.95%) and all mature within 90 days of deposit.

4. FOREIGN SECURITIES

Foreign securities comprise:

	2020		2019	
	Amortized Cost/Original Cost	Fair Value	Amortized Cost/Original Cost	Fair Value
<i>Debt securities at fair value:</i>				
Bonds/Debentures	1,573,500	1,599,156	882,350	887,851
<i>Equity securities at fair value:</i>				
Equities	286	313	286	313
	<u>1,573,786</u>	<u>1,599,469</u>	<u>882,636</u>	<u>888,164</u>

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$000)

4. FOREIGN SECURITIES, continued

A cumulative net unrealised gain of \$27,309 (2019: \$6,936) arose on the revaluation of Securities and is included in OCI. Included in Bonds/Debentures is a 12- month ECL provision of \$1,540 (2019: \$1,409) on regional securities. This represents an increase in ECL by \$131 (2019: \$1,409). This is recorded in the Consolidated Statement of Income and Comprehensive Income.

Bonds/Debentures earn interest at rates varying between 0.12% and 5.50% (2019: 1.01% and 8.00%) and mature between 3 months and 49 years (2019: 3 months and 49 years).

5. IMF ASSETS

	2020	2019
Reserve tranche	34,801	34,994
Holdings of Special Drawing Rights	20,463	28,771
Total IMF assets	55,264	63,765

The Reserve Tranche and Holdings of Special Drawing Rights pertain to the value of SDRs at December 31, 2020.

The balances held at December 31, 2020 amounted to SDR 12,663 (2019: SDR12,555) and SDR 7,446 (2019: SDR 10,323), respectively. The rate of translation of SDRs to Barbados dollars at December 31, 2020 is BDS\$1 = SDR 0.363878 (2019: BDS\$1 = SDR 0.358795).

Holding of Special Drawing Rights

The holding of SDRs is potentially a claim on the freely usable currencies of IMF members, in that holders of SDRs can exchange their SDRs for these currencies. The SDRs value as a reserve asset derives from the commitments of members to hold and accept SDRs, and to honor various obligations connected with the operation of the SDR system. The IMF ensures that the SDRs claim on free usable currencies is being honored in two ways: by designating IMF members with a strong external position to purchase SDRs from members with weak external positions, and through the arrangement of voluntary exchanges between participating members in a managed market.

IMF assets have no fixed terms of repayment and earned interest at rates varying between 0.05% and 0.75% (2019: rates varying between 0.76% and 1.15%).

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

6. LOCAL SECURITIES

Amounts comprise debt securities at amortised cost:

	2020		2019	
	Nominal Value	Amortized Cost	Nominal Value	Amortized Cost
Barbados Government Treasury Bills	209,644	208,841	209,644	207,066
Barbados Government Debentures	414,440	418,772	414,440	416,052
Barbados Government Debentures - Series B	4,969	4,475	4,969	4,295
	629,053	632,088	629,053	627,413

On June 1, 2018, the Government announced its intention to restructure its public debt. Debt payments to foreign creditors would be suspended and payments to domestic creditors would be made on a best-effort basis while the Government finalised a comprehensive economic reform plan. Pursuant to a comprehensive debt restructuring agreement between the domestic creditors and the Government, under the Debt Holder (Approval of Debt Restructuring) Act on October 31, 2018 the Bank derecognized (i) Treasury Bills measured at amortised cost with a value of \$1,529,543 and (ii) debentures measured at amortised cost with a value of \$415,773 and recognised (i) Treasury Bills with a nominal value of \$209,644 measured at originated credit impaired costs /fair value of \$207,220 and (ii) debentures with a nominal value of \$419,409 measured at original credit impaired cost/fair value of \$430,853.

The average yield on Treasury Bills during the year was 3.50% (2019: 3.50%). The average yield on Debentures was 6.83% (2019: 6.85%).

The POCI Credit Impaired Lifetime ECL on local securities is \$21,856 (2019: \$30,517). This represents a decrease in ECL of \$8,661 (2019: increase of \$931). This amount has been recorded in the consolidated Statement of Income and Comprehensive Income. Also see Note 21.

7. FIXED DEPOSITS

Fixed deposits bear interest rates varying between 0.01% and 0.75% (2019: 0.01% and 0.75%) and have an original maturity date of more than ninety days to a year.

8. ADVANCES TO GOVERNMENT

	2020	2019
Advances to Government	135,340	192,405

The limit in force was \$228,684 from January to March 2020 and \$228,293 from April to December 2020 based on the former Act. During 2019 the limit in force was \$232,300 from January to March 2019 and \$228,684 from April to December 2019. There were no instances where the limit was breached.

The balance outstanding represents such advances made by the Bank and are within the authorized statutory limit. The advances earned interest at rate of 3.50% (2019: 3.50%). See further description at Note 21.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$000)

9. INVESTMENTS

Investment in Associate

The Bank has a 13.3% interest in the Industrial Credit Fund Loan Number 2260 BAR. The purpose of the credit fund is to assist borrowers in financing productive facilities and resources in Barbados as well as contribute to the economic development of the country. The Industrial Credit Fund Loan Number 2260 BAR is accounted for using the equity method in the consolidated financial statements.

The following table illustrates the summarised financial information of the investment in the Industrial Credit Fund Loan Number 2260 BAR:

	2020	2019
Assets	92,147	91,596
Liabilities	415	424
Equity	91,732	91,172
Revenue	1,856	2,228
Profit	560	188
Contributed Surplus	5,185	-
Bank carrying amount of the investment	12,200	11,436

The Bank's interest has been determined on the basis of unaudited financial statements of the Fund as the timing of receipt of the audited financial statements are after the finalization of the Bank's accounts. The 2019 comparatives are not materially different from the unaudited financial statements for 2019.

The entity had no contingent liabilities or capital commitments as at December 31, 2020 and 2019.

Other investments

The Bank has other investments in The Barbados Deposit Insurance Corporation, the Barbados Stock Exchange and the Barbados Automated Clearing House Services as follows:

			2020	2019
	Type of Share	Number of Shares	Carrying Value	Carrying Value
Barbados Deposit Insurance Corporation (100%)	Common	1,000,000	1,000	1,000
Barbados Stock Exchange (1.1%)	Common	55,382	55	55
Barbados Automated Clearing House Services Incorporated (16.67%)	Common	250,560	251	251
Total			1,306	1,306

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

9. INVESTMENTS, Continued

Other investments, continued

Investment in BDIC:

The Bank has a 100% interest in The Barbados Deposit Insurance Corporation which was established for the protection of depositors in the domestic financial system. See further description at Note 2(b).

The following table illustrates the summarised financial information of the investment in the BDIC:

	2020	2019
Assets	70,888	62,362
Liabilities	24	24
Equity	70,864	62,338
Revenue	8,633	8,521
Profit	8,243	8,034
Bank carrying amount of the investment	1,000	1,000

The entity had no contingent liabilities or capital commitments as at December 31, 2020 and 2019.

10.a PROPERTY, PLANT AND EQUIPMENT

	Freehold Buildings	Furniture and Equipment	Vehicles	Total
Cost:				
January 1, 2019	123,207	76,302	764	200,273
Additions	547	3,114	127	3,788
Disposal/write-offs	-	(377)	(76)	(453)
December 31, 2019	123,754	79,039	815	203,608
Additions	2,388	664	-	3,052
Disposals/write-offs	-	(4,342)	-	(4,342)
December 31, 2020	126,142	75,361	815	202,318
Accumulated Depreciation:				
January 1, 2019	34,370	57,478	569	92,417
Charge for the year	1,922	3,170	29	5,121
Eliminated on disposals	-	(376)	(75)	(451)
December 31, 2019	36,292	60,272	523	97,087

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

10.a PROPERTY, PLANT AND EQUIPMENT

	Freehold Buildings	Furniture and Equipment	Vehicles	Total
Charge for the year	2,264	3,378	72	5,714
Eliminated on disposals	-	-	-	-
December 31, 2020	38,556	63,650	595	102,801
Net Book Value:				
December 31, 2020	87,586	11,711	220	99,517
December 31, 2019	87,462	18,767	292	106,521
December 31, 2018	88,837	18,824	195	107,856

10.b LEASES

The Bank leases property to house its Hot-Site operations as part of its Business Continuity Framework. The lease is for 5 years with the option to renew.

(i) Amounts recognised in the statement of financial position:

Right-of-use asset (Building)	BDS\$
April 1, 2020 upon inception of lease	1,195
Depreciation	(199)
Balance as at December 31, 2020	996
Lease Liabilities	BDS\$
April 1, 2020 upon inception of lease	1,195
Interest expense	35
Lease payments	(185)
Balance at December 31, 2020	1,045

(ii) Amounts recognised in Profit and loss **BDS\$**

Depreciation charge on right-of-use assets	199
Interest expense on lease liabilities	35

The right of use asset has been recognised in Other Assets per Note 11. The Lease Liabilities have been recognised in Other Liabilities per Note 15.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

11. OTHER ASSETS

Other assets include:	2020	2019
Accrued income	260	120
Cheques in process of collection	2,941	5,401
Right of use Asset (Note 10b)	996	-
Prepayments	4,872	5,821
Staff Advances	15,477	16,045
Sundry Balances	895	850
	<u>25,441</u>	<u>28,237</u>

Staff advances represent mortgages and other loans provided to employees of the Bank. Staff advances earn interest at rates of 2%, 4% or 6%. The amounts are net of provision of \$119 (2019: \$119).

At December 31 the following categories of advances exist:

	2020	2019
Mortgages	10,809	11,275
Motor Vehicles	1,610	1,538
Education	884	352
Other	2,293	2,999
Less: Expected credit loss	(119)	(119)
	<u>15,477</u>	<u>16,045</u>

12. NOTES AND COINS IN CIRCULATION

	2020	2019
Notes	822,246	763,127
Coins	67,755	65,559
	<u>890,001</u>	<u>828,686</u>

In accordance with Section 35 of the new Act, the Bank is the sole authority to issue currency notes and coins for circulation in Barbados. Bank notes and coins in circulation are non-interest bearing and are redeemable on demand.

At December 31, 2020, the nominal value of numismatic coins sold, totaled approximately \$11,520 (2019: \$11,520) and is excluded from 'Notes and Coins in Circulation'. The liability for face value redemptions usually represents the expected net cash outflows to be incurred by the Bank if all face value coins are redeemed. This includes the estimated costs of redemptions offset by the market value of the precious metal content of the redeemed coins.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

13. DEPOSITS OF GOVERNMENT, BANKS, FINANCIAL INSTITUTIONS AND OTHER

	<u>2020</u>	<u>2019</u>
Deposits	3,580,635	2,673,316

Included in deposits are the following:

- a) Amount totaling \$516,525 (2019: \$492,338) maintained by applicable local financial institutions for the purpose of meeting the Statutory Reserve Requirements. The Bank pays interest on foreign deposits at the rate of 0.10% (2019: 0.10%).
- b) Amounts due to related parties totaling \$62,322 (2019: \$54,143) which are unsecured, interest free with no fixed terms of repayment. Also see Note 19.
- c) Amounts totaling \$19,537 (2019: \$172,155) which represents uninvested funds held on behalf of Government for which the Bank manages in a custodial capacity. Also see Note 2(y).
- d) Amounts totaling \$22,726 (2019: \$11,872) on deposit from the Financial Services Commission which represent statutory deposits from insurance companies and abandoned property in the form of unclaimed matured insurance policies.

14. ALLOCATION OF SPECIAL DRAWING RIGHTS AND LOAN – INTERNATIONAL MONETARY FUND

	<u>2020</u>	<u>2019</u>
Allocation of Special Drawing Rights	176,911	179,418

This amount of SDR 64,374 (2019: SDR 64,374) represents the liability to the IMF in respect of Special Drawing Rights (SDRs) allocated by the Fund. This allocation does not change unless there are cancellations or further allocations. Accordingly, changes arise from annual revaluations done by the Fund. Also see description at Note 5.

	<u>2020</u>	<u>2019</u>
IMF Loan (Extended Fund Facility)	384,744	292,646

The Extended Fund Facility (EFF) is a four-year facility provided by the IMF to support Balance of Payments and Government's economic reform and transformation agenda. The IMF approved the EFF of BDS \$580 million equivalent to SDR 208 million in October 2018. This amount is equivalent to 220% of the country's quota with the IMF. The first tranche amounting to SDR 35 million (equivalent to BDS\$101,000) was disbursed on October 1, 2018. During 2019 two tranches of SDR 35m (totaling BDS \$195,097) each were received.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

14. ALLOCATION OF SPECIAL DRAWING RIGHTS AND LOAN – INTERNATIONAL MONETARY FUND, continued

In June 2020 SDR 35 million (equivalent to BDS \$96,186) was received. In June 2020, the Bank and the IMF modified the terms of the EFF to allow the Fund to provide direct budget financing to the Government. As a result, the Fund advanced \$181,300 (66M SDR) and \$137,954 (48M SDR) to the Government in June and December 2020 respectively. See Note 17.

Also, in December 2020, the Bank was supposed to receive SDR17 million (equivalent to BDS\$48,846) however this was provided as direct budget financing to the Government. The remaining amounts are expected to be received in three tranches over a period of one and a half years provided that the Bank and Government satisfy certain predefined financial and monetary targets established by the Fund.

The interest rate applicable on the EFF comprises of the basic rate charge, which is equivalent to the SDR interest rate plus 100 basis points. The effective rate is 1.080% (2019: 1.740%).

The loan is expected to be repaid in tranches totaling \$152,294 (2019: \$81,328) between one and five years and tranches totaling \$232,450 (2019: 211,318) after five years.

15. OTHER

This amount comprises:

	2020	2019
Accounts Payable	3,949	2,861
Contribution Payable – UWI Fund re Chair in Banking	1,161	1,161
Domestic Clearing	67,491	54,237
Dormant Accounts (i)	24,268	17,343
Frank Collymore Literary Endowment Fund	1,000	1,000
Lease Liabilities (Note 10b)	1,045	-
Sundry Balances	4,310	6,425
	103,224	83,027

- (i) Dormant accounts comprise deposits made by Banks relating to abandoned property for which no activity was evidenced for a period of 10 years and said property is deposited with the Central Bank of Barbados in accordance with Section 88 (3) of the Financial Institutions Act, 1997-16. Under Section 90 the Bank shall pay these funds into the Consolidated Fund.

The Bank retains dormant amounts indefinitely unless requested by the Government

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

16. CAPITAL AND RESERVES (DEFICIT)

The Bank manages its Capital in compliance with the Act.

- The Bank's objectives when managing capital are:
- To safeguard the value of the Barbados Dollar
- To promote financial stability in Barbados
- To safeguard the Bank's ability to continue as a going concern.

The authorized capital of the Bank was 5,000 shares with no par value up to December 13, 2020. Shares of a value of \$2,000 are fully paid and have been issued to the Minister of Finance, who holds them on behalf of the Government. On implementation of the new Act, the authorized capital was increased to \$25,000.

Profits, Losses and Distributable earnings

Section 9 (2) of the new Act states that the earnings available for distribution shall be determined by deducting from the distributable profits the total amount of all unrealised gains, if any.

Based on the above adjustment, the distributable profit for the year ended 31 December 2020 is as follows:

Distributable Profit:	2020	2019
Net Income for the year	24,020	-
Less: Net gain on FX currency revaluation	(5,122)	-
Share of profit of Associate	(764)	-
Net profit from subsidiaries	(183)	-
Balance as at December 31;	17,951	-

The new Act further notes in Section 10 that where the Board approves financial statements that have been validated by an external auditor, the Bank shall allocate the distributable earnings in the following order:

- where the paid-up capital of the Bank does not equal its authorized capital, the paid-up capital shall be increased by the net profits of the Bank for every financial year until the paid-up capital of the Bank is equal to its authorized capital;
- where the sum of capital and general reserves do not equal 7.5 per cent of the total monetary liabilities of the Bank, 100 per cent of distributable earnings shall be credited to the general reserve account after provision is made for the matters set out in above;
- payment of any amounts necessary to liquidate notes issued by the Government;
- credit to special reserve accounts established pursuant to section 8(3) of Act;
- credit to or satisfaction of any claims of the Bank on the Government where such claims remain unpaid;
- transfer to the Consolidated Fund after the matters above have been satisfied.

The Bank shall not pay or distribute interim dividends.

No distribution shall be made out of the net profits of the Bank or its reserves except in accordance with certain subsections noted below.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

16. CAPITAL AND RESERVES (DEFICIT), continued

No distribution of profits shall be made where, in the determination of the Board, the assets of the Bank would be less than the sum of the liabilities and capital after such distribution is made.

Where in a financial year the Bank incurs a net loss, the loss shall first be charged to the general reserve account and subsequently applied against the capital account.

As a result, the Bank transferred \$14,500 from Distributable Profit to Paid Up Capital and \$3,451 to General reserves. The Bank also transferred \$8,500 from Contributed Surplus to Paid Up Capital.

Paid Up Capital	2020	2019
Balance as at January 1;	2,000	2,000
Transfer from Contributed Surplus	8,500	-
Transfer from Distributable Profit	14,500	-
Balance as at December 31;	25,000	2,000

General Reserve

The general reserve was accumulated out of net income and is consistent with the Section 8 of the new Act.

	2020	2019
Balance as at January 1;	25,000	25,000
Transfer from Distributable Profit	3,451	-
Balance as at December 31;	28,451	25,000

Contributed Surplus

	Land at Church Village	Share of loss from Associate	Forgiveness of Loan due to Associate	Total
Balance, as at December 31 2019	8,500	(733)	2,288	10,055
Transfer to Paid Up Capital	(8,500)	-	-	(8,500)
Balance, as at December 31, 2020	-	(733)	2,288	1,555

Land at Church Village

During 2017, the Government approved and conveyed to the Bank certain property at Church Village, Bridgetown which carried a valuation of \$8,500. This transaction was recorded as an increase to Contributed Surplus. During 2020 this amount was transferred to Paid Up Capital as it represented physical property transferred to the Bank.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

16. CAPITAL AND RESERVES (DEFICIT), continued

Forgiveness of loan due to Associate

During 2018, a subsidiary received a forgiveness of debt totaling \$2,288 due to and Associate company as part of the directive from the Ministry of Finance that all state owned entities and public sector bodies write off debts due to each other. The amount has been recorded in other comprehensive income as it relates to a transaction between common controlled entities.

Share of contributed loss

During 2019 an amount totaling \$733 was recognised relating to the Bank's share of contributed loss from the Associate.

Fair Value Reserve

This amount relates to the cumulative unrealised gains or losses on securities at FVOCI.

Retirement Benefit Reserve

This amount relates to the net cumulative actuarial gains/losses and plan asset experience gains/losses of the pension plan.

17. COMMITMENTS, CONTINGENCIES AND GUARANTEES

- a) At December 31, 2020, the Bank had guaranteed settlement of approximately \$1,177 (2019: \$1,557) under the following schemes:

	2020		2019	
	Value of Original Contract	Outstanding Guarantees	Value of Original Contract	Outstanding Guarantees
Small Business Guarantee Fund	1,773	1,177	2,773	1,557
Trade receivables liquidity facility	-	-	-	-
	1,773	1,177	2,773	1,557

No claims were made on the Bank by the above funds.

- b) Additionally, at December 31, 2020, the Bank had contracts for capital expenditure in the amount of \$1,883 (2019: \$600).
- c) On June 12, 2020, the Bank and the Ministry of Finance, Economic Affairs and Investment (MOF) executed a Memorandum of Understanding (MOU) regarding the respective responsibilities in connection with the budgetary support received under the Extended Fund Facility with the IMF.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

17. COMMITMENTS, CONTINGENCIES AND GUARANTEES, continued

The MOU provides that in the event the MOF does not hold sufficient funds with the Bank to repay the IMF, the Bank will proceed with the due payment which would become a liability of the MOF to the Bank. At December 31, 2020 the amount outstanding by Government to the IMF was \$368,100.

18. RELATED PARTIES

In the normal course of its operations, the Bank enters into transactions with related parties, and material transactions and balances are presented in these financial statements. Not all transactions between the Bank and government-related entities have been disclosed, as permitted by the partial exemption available to wholly-owned government entities in International Accounting Standard 24 Related Party Disclosures.

Other income includes management fees received as follows:

	2020	2019
Industrial Credit Fund	310	265
Housing Credit Fund	480	471
	790	736

A dividend of \$Nil (2019: \$2,740) was received from an associated company.

The Bank also manages the Housing Credit Fund. The net assets and net income as disclosed in the Fund's unaudited financial statements are as follows:

	2020		2019	
	Net Assets	Net Income	Net Assets	Net Income
Managed Entity:				
Housing Credit Fund	140,275	58	138,735	764

The Bank provides funds-management, fiscal-agent and banking services to the Government of Barbados as set out in Part IX of the Act.

The Bank also provides management, investment and administrative support to the Bank's Pension Plan.

Key Management Personnel and Compensation

The key management personnel responsible for planning, directing and controlling the activities of the Bank are the members of the Board, Executive and other Senior Management.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

18. RELATED PARTIES, continued

Key Management Personnel and Compensation, continued

The compensation of key management personnel is presented in the following table:

	<u>2020</u>	<u>2019</u>
Short-term employee benefits	6,065	5,617
Post-employment benefits	127	133
Directors' fees	60	60
Total compensation	<u>6,252</u>	<u>5,810</u>

	<u>2020</u>	<u>2019</u>
Staff advances to key management personnel total:	<u>3,059</u>	<u>3,398</u>

19. RETIREMENT BENEFIT PLAN

The Central Bank of Barbados has established a non-contributory retirement plan for the benefit of its employees. The plan is a defined benefit plan. The assets of the plan are held in separate trust administered funds. A full actuarial valuation is obtained from an independent valuer at least every three years and a review is done annually. The scheme is registered with the Financial Services Commission under the Occupational Pension Benefits Act, 2012.

a) The amounts recognized in the consolidated statement of financial position are as follows:

	<u>2020</u>	<u>2019</u>
Present value of defined benefit obligation	(147,843)	(151,107)
Additional liability (IFRIC 14)	(5,474)	(2,875)
	<u>(153,317)</u>	<u>(153,982)</u>
Fair value of plan assets	139,861	136,670
Net Liability recognized in the consolidated statement of financial position	<u>(13,456)</u>	<u>(17,312)</u>

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

19. RETIREMENT BENEFIT PLAN, continued

b) Reconciliation of amounts reported in the consolidated statement of financial position:

	2020	2019
Pension plan obligation, beginning of year	(17,312)	(30,806)
Net pension costs during the year	(3,523)	(4,600)
Re-measurements recognised in other comprehensive income	(313)	10,447
Contributions to pension scheme	7,692	7,647
Pension plan obligation, end of year	(13,456)	(17,312)

c) The movement in the defined benefit obligation are as follows:

	2020	2019
Opening defined benefit obligation	153,982	152,185
Current service cost	2,297	2,323
Interest cost	11,529	11,736
Employee's contributions	-	2,935
Actuarial gains	(7,799)	(8,964)
Benefits paid	(9,291)	(9,108)
Additional liability (IFRIC 14)	2,375	2,875
Change in unrecognised asset ceiling	224	-
Closing defined benefit obligation	153,317	153,982

d) The defined benefit obligation is allocated between the Plan's members as follows:

	2020 %	2019 %
Active members	44.17%	45.20
Deferred members	7.03%	6.88
Pensioners	48.80%	47.92

The weighted average duration of the defined benefit obligation as at 31 December, 2020 was 12.56 years (2019: 12.66 years). 99.81% of the value of benefits for active members were vested while 43.21% of the defined benefit obligation for active members was conditional on future salary increases.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

19. RETIREMENT BENEFIT PLAN, continued

e) Movement in fair value of plan assets:

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

	2020	2019
Fair value of plan assets at the start of the year	136,670	121,379
Interest Income	4,793	13,823
Employer contribution	7,692	7,647
Employee's contributions	-	2,935
Benefits paid	(9,291)	(9,108)
Expense allowance	(3)	(6)
Fair value of plan assets at the end of the year	139,861	136,670

f) The amount recognised in the consolidated statement of income:

	2020	2019
Current service cost	2,297	2,323
Net Interest on the net defined benefit asset	999	2,271
Administration expenses	3	6
Additional voluntary contribution	-	2,755
Change in unrecognised asset ceiling	224	-
Total included in staff cost	3,523	7,355

g) The amounts recognised in other comprehensive loss:

	2020	2019
Experience gains	(7,799)	(8,964)
Expected return on plan assets	10,530	9,465
Actual return on plan assets	(4,793)	(13,823)
Additional Liability (IFRIC 14)	2,375	2,875
	313	(10,447)

Notes to Consolidated Financial Statements

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(Expressed in BDS \$'000)

19. RETIREMENT BENEFIT PLAN, continued

h) The Principal actuarial assumptions used:

	2020 %	2019 %
Discount rate	7.75	7.75
Expected rate of future salary increases	5.75	5.75
Expected rate of future NIS ceiling increases	4.75	4.75
Expected rate of future pension increases	3.75	3.75
Expected rate of return on plan assets	7.75	7.75

Assumptions regarding future mortality are based on published mortality rates. The life expectancies underlying the value of the defined benefit obligation.

	2020 Years	2019 Years
Life expectancy at age 60 for current pensions		
Male	24.94	24.86
Female	26.99	26.94
Life expectancy at age 60 for current members age 40 in years		
Male	26.53	26.45
Female	27.82	27.78

i) Plan assets are comprised as follows:

Employers:	2020	2019
Fixed income securities	78,944	74,642
Equity securities	52,455	50,424
Cash	1,429	3,734
Other assets	669	732
Total	133,497	129,532

Employees:	2020	2019
Fixed income securities	5,701	4,564
Equity securities	240	326
Cash	423	2,248
	6,364	7,138
Total	139,861	136,670

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$000)

19. RETIREMENT BENEFIT PLAN, continued

As at December 31, 2020 approximately 60.52% (2019: 57.95%) of the Plan was directly invested in Barbados Government Debentures and Treasury Bills. The Plan has amounts totalling \$1,852 (\$5,982) at the Bank which are included in Other Deposits as per Note 13.

20. TAXATION

The Bank is exempt from corporation tax in accordance with Section 72 (a) of the new Act.

21. FINANCIAL RISK MANAGEMENT

Introduction and Overview

By its nature, the Bank's activities are principally related to the use of financial instruments. The strategy for using these financial instruments is embedded in the mission of the Bank to foster an economic and financial environment conducive to sustainable economic growth and development.

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Currency risk
- Liquidity risk
- Interest rate risk
- Operational risk

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. It has established three committees for this purpose:

- (i) Investment Committee, which is responsible for providing oversight on the conversion of investment strategy into performance, risk exposure for the Bank's Foreign Reserves, financial structure, and performance of the portfolio and investments.
- (ii) Staff Advances Committee, which is responsible for evaluating and approving applications for staff loans.
- (iii) Audit Committee, which is responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Internal Audit Department. This department undertakes both regular and ad hoc reviews of management controls and procedures, the results of which are reported to the Audit Committee.

The nature of the risks and manner in which they are measured and managed are as set out below:

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

21. FINANCIAL RISK MANAGEMENT, continued

Credit Risk

Credit risk is the risk of loss arising from a counter-party to a financial contract failing to discharge its obligations. This risk arises primarily from the Bank's foreign and local currency investment securities, balances held abroad, interest in funds managed by agents, Advances to Government and State-Owned Enterprises and other assets.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practices. In addition, the Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their role and obligations.

Foreign Securities and Balances Held Abroad

The Bank manages credit risk by placing limits on its holdings of securities issued or guaranteed by governments and international institutions. The investment guidelines, which are approved by the Board of Directors, and administered by the Investment Committee stipulates the limits on the level of credit risk by various factors. They also stipulate the minimum required ratings issued by rating agencies for its international investments. The Bank further manages this risk by ensuring that business is only conducted with its approved banks and by monitoring those banks' deposit ratings.

The Bank uses the credit ratings ascribed by Moody's Investor Services and Standard & Poor's Financial Services LLC and Fitch as its main criteria for assessing the creditworthiness of financial institutions and sovereigns. The Bank's foreign investments are restricted to market placements with financial institutions with minimum credit ratings of A.

The table below presents an analysis of the Bank's foreign securities by rating agency designation at December 31, 2020 and December 31, 2019, based on Moody's or equivalent:

Foreign Securities:

	2020	2019
Rated (Moody's)		
AAA	883,241	619,723
AA+	566,143	190,903
A+	80,346	65,184
AA-	57,803	-
BAA3 (S&P:B)	-	165
	1,587,533	875,975
Unrated		
Regional Securities	11,936	12,189
Total Foreign Securities	1,599,469	888,164

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

21. FINANCIAL RISK MANAGEMENT, continued

Foreign Securities and Balances Held Abroad, continued

The Bank considers foreign securities with a S&P rating of 'A' or equivalent as High Grade and unrated regional securities not in default as standard grade. When a security, subsequent to purchase, ceases to be eligible under the S&P rating system the Investment manager shall divest the relevant investment on a best efforts basis as soon as possible.

Foreign securities are held in the following asset categories:

	2020	2019
Asset Backed Securities	75,795	111,361
Mortgage Backed Securities	9,357	8,780
Treasuries	326,256	236,760
Government Bonds	134,821	62,314
Supranational Bonds	455,531	179,005
Corporates	223,005	81,889
Agencies	370,267	205,882
Other	4,437	2,173
Total	1,599,469	888,164

Local Securities

These represent Government securities which are classified as POCI in 2018.

Prior to 2018, the Bank purchased treasury bills on the primary market through auctions managed by the Accountant General and the secondary market in order to provide liquidity to commercial banks. There were no such purchases in 2019 or 2020.

Under the Central Bank of Barbados (Amendment) Act 2018, there was a limit on indebtedness to the Government on the holding of primary issue of securities. This amendment states that:

"The Bank may in any financial year purchase or otherwise acquire, on a primary issue, notes, bills, securities and other evidences of indebtedness issued or guaranteed by the Government, its institutions, agencies and statutory boards up to a nominal value of ten per cent of the estimated expenditure of the Government in that financial year, or such other percentage as the House of Assembly may from time to time by resolution approve".

With the enactment of the new Act the Bank is prohibited by section 62 (1) and (3) with some exceptions from providing direct or indirect financing to Government or State-Owned entities. The Bank is also prohibited from purchasing securities from the Government or any Government Owned entities. According to section 62 (8) of the said Act, where by on enactment it is declared that a public emergency has arisen in Barbados, the Bank may purchase marketable securities issued by the Government or State-owned entities on the primary market.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

21. FINANCIAL RISK MANAGEMENT, continued

Local Securities, continued

The total amount of debt acquired as a result of public emergency shall be:

- limited to 3 per cent of Gross Domestic Product
- have a maximum maturity of 5 years
- be issued at prevailing market rates
- issued in cash only and;
- shall not be rolled over or renewed.

The limit on indebtedness was not breached during the year.

Advances to Government

Advances are based on approved statutory allocation limits. Requests for advances are reviewed to ensure that the amounts are within the approved allocated limits which are reviewed annually.

Advances to Government were based on the statutory limit under section 59 (2) of the Public Finance Management Act 2019 which states that:

“Where the Minister responsible for Finance, in a Financial Year, when authorised by resolution of Parliament, for the purpose of meeting current requirements, borrows money from the Central Bank of Barbados by means of temporary advances the amount shall not exceed 7.5 per centum of the net receipts of the estimated revenue of the Government for that financial year”.

As previously stated, on enactment of the new Act, temporary Advances are subject to the following conditions which will come into effect from the 2021 fiscal year:

- the total aggregate amount cannot exceed at any time 7.5 per cent of the annual average of the ordinary revenue of the Government for the 3 financial years immediately preceding for which accounts are available;
- repayment in cash only within 3 months after the end of the financial year of the Government;
- bear interest at a prevailing market rate;

It should also be noted that section 59 (2) of the Public Finance Management Act aforementioned has been repealed and 62 of the new Act is the sole statutory provision governing advances to Government.

Advances to Staff

Advances to staff are authorized under section 70 of the new Act and the Bank established a Staff Advances Committee, which is responsible for evaluating and approving applications for staff loans under the CBB (Terms and Conditions of Advances to Employees) Regulations, 2010.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

21. FINANCIAL RISK MANAGEMENT, continued

Advances to Staff, continued

Advances are based on Board approved allocation limits. Requests for advances are reviewed to ensure that the amounts are within the approved limits. The approved limits are reviewed annually. The Bank obtains the appropriate collateral as a risk mitigating tool when advances are issued.

Concentrations

The Bank is significantly exposed to credit risk arising from its transactions with the Government which mainly comprise of local securities and advances. These items represent approximately 21% (2019: 33%) of total assets.

The Consolidated Statement of Financial Position amounts represent the maximum exposure to credit risk before collateral or other credit enhancement items are considered.

Expected Credit Loss

The table below shows the ECL charges on financial instruments for the year recorded in the consolidated statement of income. For the purposes of the below table, the expected credit loss allocated to each stage includes the remeasurement of assets transferred from one stage to another, and movements between stages have been netted off. Derecognition and write-offs have been treated as movements in the ECL loss allowance and reconciliations and explanations in respect of the movement are provided in each asset class note.

2020	Note	Stage1	Stage2	Stage 3	POCI*	Total
January 1:		119	1,409	-	30,517	32,045
<i>Regional securities:</i>						
Changes in assumptions	4	-	131	-	-	131
<i>Local Securities</i>	6					
Reversal		-	-	-	(7,142)	(7,142)
Unwinding of ECL/discount		-	-	-	(9,725)	(9,725)
Remeasurement		-	-	-	8,206	8,206
		-	131	-	(8,661)	(8,530)
December 31:		119	1,540	-	21,856	23,515

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

21. FINANCIAL RISK MANAGEMENT, continued

Expected Credit Loss, continued

2019	Note	Stage1	Stage2	Stage 3	POCI*	Total
January 1:		408	-	-	29,586	29,994
<i>Regional Securities:</i>						
Remeasurement	4	-	1,409	-	-	1,409
<i>Advances:</i>						
Reversal	8	(289)	-	-	-	(289)
<i>Local Securities:</i>						
Changes to assumptions	6	-	-	-	931	931
		(289)	1,409	-	931	2,051
December 31:		119	1,409	-	30,517	32,045

* The ECL amounts disclosed for POCI instruments represent the embedded ECL recognised within the carrying value of the POCI instruments.

Foreign securities are predominantly A rated as disclosed earlier in Note 21. Management has assessed that ECL as insignificant. There were no changes in between classification stages.

A one rate improvement in credit ratings will cause profit to increase by \$10,774 (2019: \$3,130). A one rate deterioration in credit ratings will cause profit to decrease by \$42,574 (2019: \$15,232).

Currency Risk

Currency risk is the risk that the market value of, or cash flow from, financial instruments will vary because of exchange rate fluctuations.

The Bank is exposed to fluctuations in the prevailing foreign currency exchange rates on transactions and balances denominated in currencies other than USD. Management seeks to manage this risk by monitoring the levels of exposure by currency. The main risk relates to balances held with the IMF in SDRs. See notes 5 and 14. The SDR serves as the unit of account for the IMF and its value is based on a basket of five major currencies: the euro, the US dollar, the British pound, the Japanese yen and the Chinese renminbi. SDRs are translated into Barbados dollar equivalents at rates provided by the Fund.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

21. FINANCIAL RISK MANAGEMENT, continued

Currency Risk, continued

As at December 31, 2020, the Bank's exposure to major currencies in \$'000's was as follows:

As at December 31, 2020

Assets	US	GBP	CAD	Euro	BDS	SDR	Other	Total
Balances Held Abroad	994,282	555	758	484	-	-	4,766	1,000,845
Foreign Notes and Coins	7,571	1,869	2,287	2,745	-	-	800	15,272
Foreign Securities	1,599,469	-	-	-	-	-	-	1,599,469
IMF Related Assets	-	-	-	-	-	55,264	-	55,264
Barbados Government T-Bills	-	-	-	-	208,841	-	-	208,841
Barbados Government Debentures	-	-	-	-	423,247	-	-	423,247
Fixed Deposits	-	-	-	-	10,140	-	-	10,140
Government Advances	-	-	-	-	135,340	-	-	135,340
Other Assets	-	-	-	-	18,678	-	-	18,678
Total Assets	2,601,322	2,424	3,045	3,229	796,246	55,264	5,566	3,467,096
Liabilities								
Notes and Coins in Circulation	-	-	-	-	890,001	-	-	890,001
Government Deposits	-	-	-	-	825,535	-	-	825,535
Other Deposits	-	-	-	-	124,013	-	-	124,013
Allocation of Special Drawing Rights	-	-	-	-	-	176,911	-	176,911
Deposits of Banks and Financial Institutions	57,722	35	2,377	-	2,568,763	2,190	-	2,631,087
IMF Loan	-	-	-	-	-	384,744	-	384,744
Other Liabilities	-	-	-	-	103,224	-	-	103,224
Total Liabilities	57,722	35	2,377	-	4,511,536	563,845	-	5,135,515

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

21. FINANCIAL RISK MANAGEMENT, continued

Currency Risk, continued

As at December 31, 2019, the Bank's exposure to major currencies in \$'000's was as follows:

Assets	US	GBP	CAD	Euro	BDS	SDR	Other	Total
Balances Held Abroad	522,878	771	1,461	1,978	-	-	4,774	531,862
Foreign Notes and Coins	4,258	1,902	156	590	-	-	81	6,987
Foreign Securities	888,164	-	-	-	-	-	-	888,164
IMF Related Assets	-	-	-	-	-	63,765	-	63,765
Barbados Government T-Bills	-	-	-	-	207,066	-	-	207,066
Barbados Government Debentures	-	-	-	-	420,347	-	-	420,347
Fixed Deposits	-	-	-	-	10,140	-	-	10,140
Government Advances	-	-	-	-	192,405	-	-	192,405
Other Assets	-	-	-	-	28,237	-	-	28,237
Total Assets	1,415,300	2,673	1,617	2,568	858,195	63,765	4,855	2,348,973
Liabilities								
Notes and Coins in Circulation	-	-	-	-	828,686	-	-	828,686
Government Deposits	-	-	-	-	487,852	-	-	487,852
Deposits of Banks and Financial Institutions	43,572	34	2,323	-	2,017,850	5,702	-	2,069,481
Other Deposits	-	-	-	-	115,983	-	-	115,983
Allocation of Special Drawing Rights	-	-	-	-	-	179,418	-	179,418
IMF Loan	-	-	-	-	-	292,646	-	292,646
Other Liabilities	-	-	-	-	-	-	-	-
Total Liabilities	43,572	34	2,323	-	3,533,398	477,766	-	4,057,093

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December 31, 2020

(Expressed in BDS \$'000)

21. FINANCIAL RISK MANAGEMENT, continued

Currency Risk, continued

The following tables demonstrate the sensitivity of profit to a reasonably possible change in foreign exchange rates, with all other variables held constant.

Sensitivity of Profit in BDS '000s at December 31, 2020

	Effect on Profit of 5% Increase	Effect on profit of 5% Decrease
Assets		
EURO	161	(161)
GBP	121	(121)
CAD	152	(152)
SDR	2,763	(2,763)
Liabilities		
GBP	(2)	2
CAD	(119)	119
SDR	(28,192)	28,192

Sensitivity of Profit in BDS '000s at December 31, 2019

	Effect on Profit of 5% Increase	Effect on profit of 5% Decrease
EURO	128	(128)
GBP	134	(134)
CAD	81	(81)
SDR	3,188	(3,188)
Liabilities		
GBP	(2)	2
CAD	(116)	116
SDR	(23,888)	23,888

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December 31, 2020

(Expressed in BDS \$'000)

21. FINANCIAL RISK MANAGEMENT, continued

Liquidity Risk

Liquidity risk is the risk that the Bank will not be able to meet its financial liabilities as they fall due. Prudent liquidity management requires maintaining sufficient cash and marketable securities, and ensuring the availability of funding through an adequate amount of committed standby credit facilities to meet commitments.

The Bank's exposure to liquidity risk to meet foreign liabilities, as an institution, is limited due to the amount owed to overseas creditors/lenders. Management of liquidity risk relates primarily to the availability of liquid foreign resources to sell to the Government and its State-Owned Enterprises to repay their suppliers and lenders.

The table below analyses assets and liabilities of the Bank into relevant maturity profiles based on the remaining period at the reporting date to the contractual maturity date.

	2020					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	>5 years	Total
Foreign Currency Assets						
Balances Held Abroad	1,000,845	-	-	-	-	1,000,845
Foreign Notes and Coins	15,272	-	-	-	-	15,272
Foreign Securities	12,067	43,733	84,227	1,067,299	392,143	1,599,469
IMF Related Assets	55,264	-	-	-	-	55,264
Total Foreign Currency Assets	1,083,448	43,733	84,227	1,067,299	392,143	2,670,850
Local Currency Assets						
Barbados Government T-Bills	-	-	208,841	-	-	208,841
Barbados Government Debentures	-	-	-	84,964	338,283	423,247
Fixed Deposits	-	-	10,140	-	-	10,140
Government Advances	135,340	-	-	-	-	135,340
Other Assets	9,215	2	238	5,008	10,979	25,441
Total Local Currency Assets	144,555	2	219,219	89,972	349,262	803,009
Total Assets	1,228,002	43,735	303,446	1,157,271	741,405	3,473,859

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

21. FINANCIAL RISK MANAGEMENT, continued

Liquidity Risk, continued

	2020					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	>5 years	Total
Liabilities						
Notes and Coins in Circulation	890,001	-	-	-	-	890,001
Government Deposits	825,535	-	-	-	-	825,535
Other Deposits	124,013	-	-	-	-	124,013
Allocation of Special Drawing Rights	176,911	-	-	-	-	176,911
Deposits of Banks and Financial Institutions	2,631,087	-	-	-	-	2,631,087
IMF Loan	-	-	-	184,223	239,587	423,810
IMF Loan Commitment (note 17)	-	-	-	108,328	291,692	400,020
Other Liabilities	103,224	-	-	-	-	103,224
Total Liabilities	4,750,771	-	-	292,551	531,279	5,574,601

	2019					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	>5 years	Total
Foreign Currency Assets						
Balances Held Abroad	531,862	-	-	-	-	531,862
Foreign Notes and Coins	6,987	-	-	-	-	6,987
Foreign Securities	12,189	69,816	71,940	368,445	365,774	888,164
IMF Related Assets	63,765	-	-	-	-	63,765
Total Foreign Currency Assets	614,803	69,816	71,940	368,445	365,774	1,490,778

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$'000)

21. FINANCIAL RISK MANAGEMENT, continued

Liquidity Risk, continued

	2019					
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	>5 years	Total
Local Currency Assets						
Barbados Government T-Bills	-	-	207,066	-	-	207,066
Barbados Government Debentures	-	-	-	84,981	335,366	420,347
Fixed Deposits	-	-	10,140	-	-	10,140
Government Advances	192,405	-	-	-	-	192,405
Other Assets	12,317	89	308	4,092	11,431	28,237
Total Local Currency Assets	204,722	89	217,514	89,073	346,797	858,195
Total Assets	819,525	69,905	289,454	457,518	712,571	2,348,973
Liabilities						
Notes and Coins in Circulation	828,686	-	-	-	-	828,686
Government Deposits	487,852	-	-	-	-	487,852
Other Deposits	115,983	-	-	-	-	115,983
Allocation of Special Drawing Rights	179,418	-	-	-	-	179,418
Deposits of Banks and Financial Institutions	2,069,481	-	-	-	-	2,069,481
IMF Loan	-	-	-	113,723	223,755	337,478
Other Liabilities	83,027	-	-	-	-	83,027
Total Liabilities	3,764,447	-	-	113,723	223,755	4,101,925

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Bank's exposure to interest rate risk in the form of fluctuating cash flows is attributable to; Balances Held abroad, Foreign Securities, IMF related assets, Government Advances, other assets and also on its financial liabilities attributable to deposits, IMF related liabilities and the loan facility.

Notes to Consolidated Financial Statements

December 31, 2020

(Expressed in BDS \$000)

21. FINANCIAL RISK MANAGEMENT, continued

Interest Rate Risk, continued

A 50 basis point change in interest rates would cause an inverse movement in income of \$2,227 (2019: \$2,657). In 2020, a 50 basis points increase in interest rates would cause other comprehensive income to decrease by \$14,975 and a 50 basis points decrease in interest rates would cause other comprehensive income to increase by \$21,471. In 2019, a 50 basis points increase in interest rates would cause other comprehensive income to increase by \$566 and a 50 basis points decrease in interest rates would cause other comprehensive income to increase by \$19,463.

Operational Risk

Operational risk is the risk of direct or indirect loss in both financial and non-financial terms arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure. It may also arise from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

Managing operational risk in the Bank is seen as an integral part of day-to-day operations and management, which includes explicit consideration of both the opportunities and the risks of all business activities. The Bank's objective is to manage operational risk so as to balance an avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity. The primary responsibility for the development and implementation of controls to address operational risk is assigned to the management team of each department. This responsibility is supported by bank-wide corporate policies which describe the standard of conduct required of staff and specific internal control systems designed around the particular characteristics of the Bank.

22. FAIR VALUE MEASUREMENT

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing their fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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22. FAIR VALUE MEASUREMENT, continued

The following table provides the fair value measurement hierarchy of the Bank's assets and liabilities.

Fair value measurement hierarchy for assets and liabilities as at December 31, 2020 (\$'000's):

	(Level 1)	(Level 2)	(Level 3)
Debt Securities at FVOCI	1,587,534	11,622	-
Equity Securities at FVOCI	-	-	313
	<u>1,587,534</u>	<u>11,622</u>	<u>313</u>

Fair value measurement hierarchy for assets and liabilities as at December 31, 2019 (000's):

	(Level 1)	(Level 2)	(Level 3)
Debt Securities at FVOCI	875,976	11,875	-
Equity Securities at FVOCI	-	-	313
	<u>875,976</u>	<u>11,875</u>	<u>313</u>

Fair value of financial instruments not carried at fair value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

For financial assets and liabilities that are liquid or have a short-term maturity, it is assumed that the carrying amounts approximate to their fair value.

For all other financial instruments, it is assumed that the carrying amounts also approximate to their fair value, except as noted below:

Local Securities

	2020		2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Barbados Government Debentures	423,247	409,408	420,347	424,584

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23. COMPARATIVES

Certain prior year comparatives have been reclassified to conform with the current year's presentation:

- (i) Other liabilities included amounts totaling \$176,486 related to Government accounts which are now reclassified to Government deposits.
- (ii) Other liabilities also included amounts due to related parties totalling \$54,143 which have been reclassified to Other Deposits.
- (iii) Barbados Government Treasury Bills included amounts totalling \$4,295 related to Barbados Government Debentures – Series B. These amounts are now shown separately at Note 6.
- (iv) Other liabilities included amounts due to the Financial Services Commission totalling \$11,872 which have been reclassified to Other Deposits.



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