

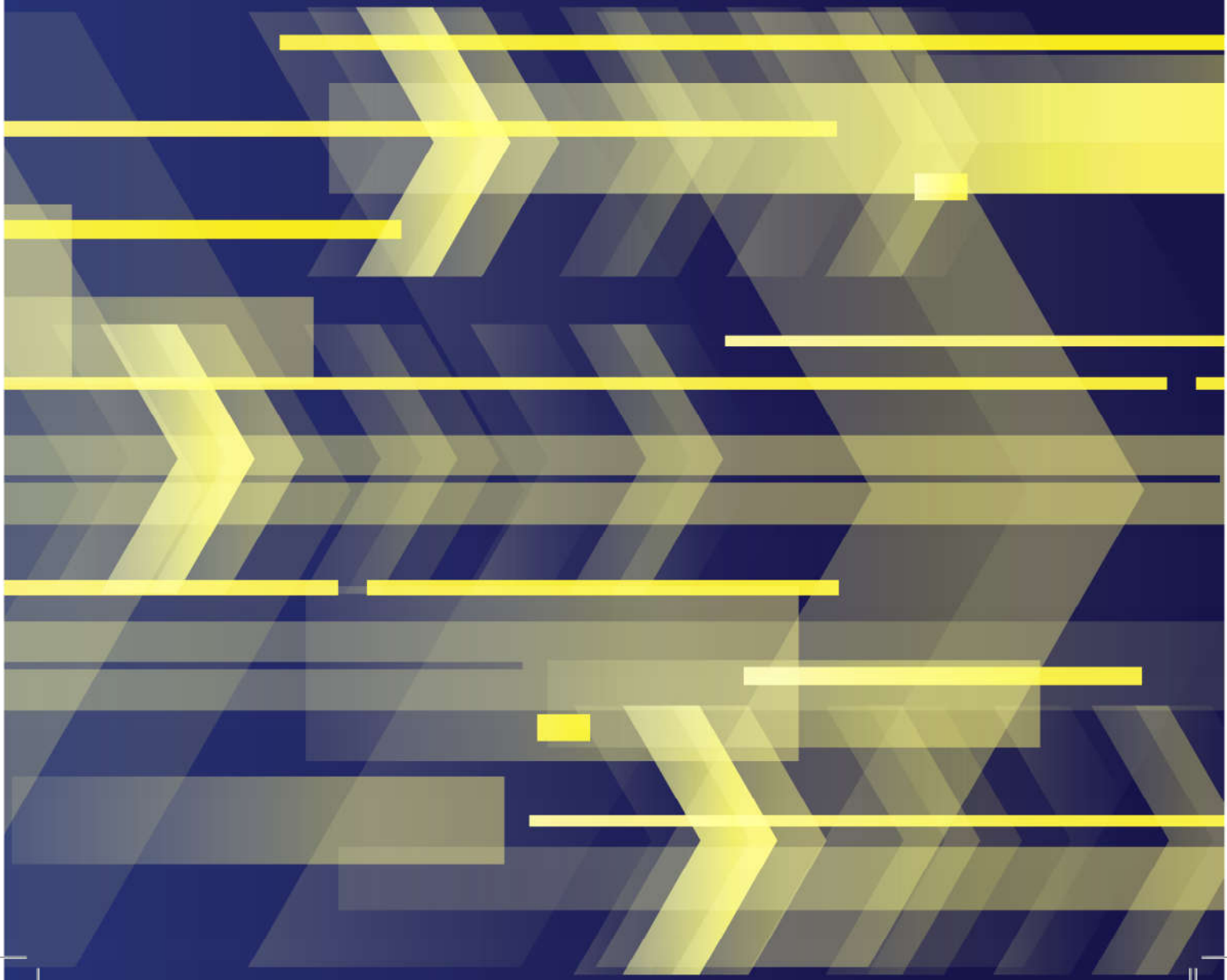
CENTRAL BANK OF BARBADOS

2018



ANNUAL REPORT

MOVING FORWARD



ABOUT THE COVER

The Government of Barbados' adoption of its recovery and transformation programme has placed the economy on the path of transitioning from its recent challenges towards stability and achieving sustainable and inclusive growth. The Central Bank, as adviser to the Government, has been active in the recovery and transformation efforts.

The cover of our 2018 Annual Report captures the forward momentum that has been achieved so far and the speed at which positive changes are taking place. The colours, blue and gold, are both Barbados' national colours and the Bank's colours, depicting the progress that the nation and the Bank are making.



CENTRAL BANK OF BARBADOS

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ANNUAL REPORT

MOVING FORWARD

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LETTER OF TRANSMITTAL



CENTRAL BANK OF BARBADOS

www.centralbank.org.bb

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

March 28, 2019

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 52(2) of the Central Bank of Barbados Act, Cap 323C, Laws of Barbados, I have the honour to submit to you in your capacity as Minister of Finance, the Bank's Annual Accounts for the year ended December 31, 2018 as certified by the External Auditors in accordance with Section 51 of the Act, together with the Report on its operations during 2018.

The original of the Auditor's Report and Certificate was forwarded to you with my letter of March 27, 2019.

Sincerely,

A handwritten signature in black ink, appearing to read 'Cliviston L. Haynes', written over a horizontal line.

Cliviston L. Haynes, M.A. (Econ.)
Governor

CORPORATE PROFILE

The Central Bank of Barbados, set up by the government in 1972 as a statutory organisation, is responsible for:

- regulating the issue, supply, availability and international exchange of money
- promoting monetary stability
- promoting a sound financial structure
- fostering development of the money and capital markets
- fostering credit and exchange conditions conducive to the orderly and sustained economic development of Barbados.

MISSION STATEMENT

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

OUR VISION

To create and maintain an institution of world-class excellence.

OUR VALUES



LEADERSHIP & INNOVATION

To be nimble, to seek out new ideas, to embrace change, to encourage critical and strategic thinking, and to value high performance.



GOVERNANCE

To follow Board-approved policies and structures that will inform, direct and monitor our activities as we work toward achieving our strategic objectives.



INTEGRITY & TRANSPARENCY

To be ethical, to practise open communication, and to be consistent in how we apply policies.



ACCOUNTABILITY

To be timely, open and accurate, and to safeguard our staff, information and other assets.



RESPECT & EMPATHY

To actively listen to each other and to value each other's opinions.



TEAM-SPIRITEDNESS

To be caring and supportive, to be enthusiastic, and to work together to achieve our organisation's objectives.

OUR STRATEGIC OBJECTIVES

1. Promote macroeconomic stability through sound economic analysis, monetary policy formation and influence on national economic policies.
2. Promote a stable and resilient financial system and provide for the effective regulation and supervision of institutions regulated by the Bank.
3. Modernize the payments system and provide efficient currency services.
4. Enhance the efficiency of money and capital markets.
5. Strengthen the governance of the Bank in accordance with international standards.
6. Strengthen the Bank's strategic planning and risk management functions and enhance the management of organisational risks.
7. Implement a digital transformation strategy to improve organisational efficiency and deliver better business value.

GOVERNOR'S MESSAGE

Economic Outlook

2018 was challenging for the Central Bank of Barbados (the Bank) as it helped government in the design of the policies to reverse several years of economic decline in the country.

The newly elected administration quickly introduced the Barbados Economic Recovery and Transformation (BERT) programme to address low growth, a deterioration in public finances, a build-up of public sector indebtedness and falling international reserves.

The programme is centred on macroeconomic adjustment, debt restructuring and structural reforms to boost growth and already there are signs of renewed confidence in the economy. Multilateral funding agencies, including the International Monetary Fund (IMF), are providing financial support to the country and our economic performance has started to improve. In particular, the import reserve cover exceeded the 12-week benchmark at year-end and further strengthening is anticipated in 2019. The public finances have improved, enabling government to make current payments on a timely basis without relying on central bank funding.

Government has committed to strengthen the fiscal position further by pursuing a primary balance of 6 percent of GDP in the coming fiscal year. This together with the debt restructuring, inclusive of the



 **Cleviston L. Haynes**
GOVERNOR



Governor Cleviston Haynes (left) is greeted as he prepares to deliver Welcome Remarks at a workshop organised by NCB Capital Markets Barbados in November to review and analyse the debt exchange experiences of Jamaica's 2013 exercise.

reduction in domestic debt, lower interest rates and extended maturities, now offers prospects for a sustained improvement in the public finances.

These developments augur well for increased investments that can help to propel economic growth.

The implementation of the domestic debt restructuring allowed the dematerialisation of all government securities to become a reality. These initiatives

should ultimately allow for increased activity on the secondary bond market, particularly in an environment in which Government is not expected to be tapping the domestic market for new funding. The changed economic environment has already enabled the Bank to lower the required securities ratio for banks and further reductions are envisaged as the economy stabilises. The scope for expansionary monetary policy has been reduced as Central Bank financing of Government's operations is now limited following legislation instituted during 2018, and alterations to the Central Bank Act, aimed at modernising the Bank to bring it in line with emerging best practices, are anticipated in 2019.

Financial Stability

The financial system, which has been a major source of government financing in recent years, remained stable during the past year. In the aftermath of implementation of the IFRS 9 Accounting Standard and the domestic debt restructuring, commercial banks suffered accounting losses, but their levels of capital remained above minimum statutory requirements.

The Bank will continue to work with its licensees and will strengthen its relationship with its sister regulator, the Financial Services Commission, so as to promote ongoing stability in the financial system.

Financial Performance

The economic adjustments impaired the Bank's balance sheet during 2018. In recent years, declining foreign exchange balances and low international interest rates made the Bank dependent on income earned from lending to the Government.

The Bank's income was more than sufficient to cover ordinary expenses in 2018, but Government's one-time write-down of the Ways & Means balance in July and the subsequent reduction in the value of securities held by the Bank, reduced the size of the Bank's balance sheet and led to an overall substantial loss that resulted in a deficiency of capital. Government has committed, as part of its programme with the IMF, to develop a recapitalisation plan for the Bank by mid-2020.

In the interim, the new securities held by the Bank, along with the anticipated income from investment of increased foreign reserves should help the Bank to cover its costs. The Bank's ability to honour its obligations will not be impaired.

Organisational Developments

As might be expected, the Bank's focus in 2018 was on dealing with the economic challenges. In this regard, the Bank collaborated with other public sector entities and the commitment and dedication shown by public sector staff, in the design and execution of the economic initiatives is worthy of commendation. At the same time, the staff in other areas of the organisation continued to provide high quality service as we sought to strengthen governance, improve customer service, enhance risk management, including as it relates to cyber security, and serve as a reliable source for economic information and analysis.

Way Forward

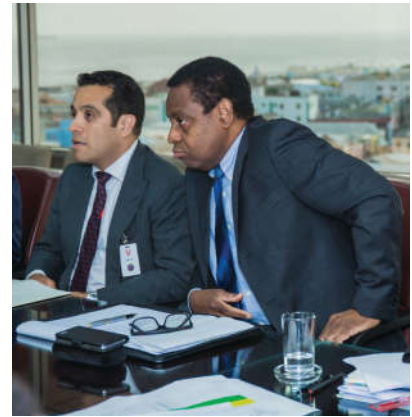
The future is promising and the Bank has an important role to play.

Firstly, the country must build on the progress of the economic recovery and transformation programme in order to create a

vibrant, strong, resilient economy. We must implement planned new private sector investments to ignite economic activity and return the economy to sustainable growth. The Bank will continue to work with Government to implement other phases of BERT and we will jointly develop appropriate monitoring mechanisms for key macroeconomic indicators. As an institution, we will maintain a monetary policy regime that is consistent with preserving macroeconomic stability.

Secondly, we need to focus on innovations that will enhance efficiency in the financial system. In this regard, we will continue to focus on the possibilities created by the emerging technologies for payments systems. Already there is an initiative to phase out the use of cheques and the Bank will assist with this process by expanding access to the Automated Clearing House to include credit unions.

Thirdly, we must continue to pursue our vision for the Bank i.e. "to create and maintain an institution of world-class excellence". We have committed to being nimble, agile, efficient and more responsive to all our stakeholders. We have committed to implementing a digital transformation strategy that integrates technology in all areas of



Governor Clevison Haynes (right) during discussions with representatives of the International Monetary Fund, Government's consultants, and senior officers of the Central Bank and other public sector agencies as the Barbados Economic Recovery and Transformation programme was being finalized.

our business processes and builds a more customer-centric culture. We will complement this strategy with the requisite development of our staff, improved governance and increased attention to risk management.

We intend to be results-oriented and we will commit resources to facilitate the effective monitoring of our programmes.



BOARD OF DIRECTORS



Mr. Cleviston L. Haynes
M.A. (Econ.)
GOVERNOR



Mr. Trevor Campbell
M.A.



Mr. Ian Carrington
M.P.A.



Professor Nlandu Mamingi
Ph.D.



Dr. Justin Robinson
Ph.D.



Mr. Joseph Ward
B.Sc., FCA



Mr. Elson Gaskin
LL.B., L.E.C., M.B.A.
BANK SECRETARY

SENIOR MANAGEMENT



Mr. Cleviston L. Haynes
M.A. (Econ.)
GOVERNOR



Mr. Michael D. Carrington
M.B.A., F.C.C.A.
DEPUTY GOVERNOR (AG.)



Mrs. Michelle Doyle-Lowe
M.PHIL, CFA
DEPUTY GOVERNOR (AG.)



Ms. Pamela Arthur
B.A., M.Sc.
DIRECTOR, HUMAN
RESOURCES (AG.)



Mr. Anton Belgrave
M.A. (Econ.), FRM.
DIRECTOR, RESEARCH
AND ECONOMIC
ANALYSIS (AG.)



Mr. Charles Briggs
M.B.A., C.ENG.
DIRECTOR, FACILITIES
MANAGEMENT



Mr. Ian Collymore
M.Sc., J.P.
DIRECTOR, FOREIGN
EXCHANGE AND EXPORT
CREDITS (AG.)



Mr. Elson Gaskin
LL.B, L.E.C, M.B.A., MICBS, J.P.
BANK SECRETARY



Mrs. Cheryl Greenidge
M.B.A.
DIRECTOR,
BANK SUPERVISION (AG.)



Ms. Janice D. Marshall
M.B.A.
DIRECTOR, MANAGEMENT
INFORMATION SYSTEMS



Mr. Philmore Thorne
M.B.A., F.C.C.A., FCA.
FINANCIAL
CONTROLLER (AG.)



Mr. Steve A. Vaughn
F.C.C.A., C.I.A.
DIRECTOR, INTERNAL
AUDIT



Ms. Julia Weekes
B.Sc., CFA
DIRECTOR, BANKING,
CURRENCY AND
INVESTMENTS



Ms. Celeste J. Wood
M.Sc., M.B.A.
ADVISER TO GOVERNOR

OTHER SENIOR OFFICERS

Ms. Wilma Belgrave

B.Sc. (Management), ACIS

DEPUTY DIRECTOR, FOREIGN EXCHANGE
AND EXPORT CREDITS

Ms. Novaline Brewster

M.Sc., J.P.

CHIEF, CORPORATE COMMUNICATIONS

Ms. Debbie Briggs

B.Sc., F.C.C.A.

DEPUTY DIRECTOR,
BANKING, CURRENCY AND INVESTMENTS

Mrs. Jennifer Clarke-Murrell

M.Sc.

DEPUTY DIRECTOR, BANK SUPERVISION (AG.)

Ms. Sadie Dixon

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

LEGAL COUNSEL

Mr. Darrin Downes

M.A. (ECON.), LL.B., L.E.C.

CHIEF ECONOMIST,
RESEARCH AND ECONOMIC ANALYSIS

Ms. Octavia Gibson

M.Sc., PMP, J.P.

DEPUTY DIRECTOR,
BANKING, CURRENCY AND INVESTMENTS

Mr. Roger Gumbs

C.G.A., C.F.S.A.

DEPUTY FINANCIAL CONTROLLER (AG.)

Mrs. Josephine Haywood

B.Sc., C.G.A.

DEPUTY DIRECTOR,
MANAGEMENT INFORMATION SYSTEMS

Ms. Tamara Hurley

M.B.A.

DEPUTY DIRECTOR, BANK SUPERVISION

Mr. Hartley Jordan

M.B.A.

DEPUTY DIRECTOR, FACILITIES MANAGEMENT

Mrs. Sheryl A. Peter-Kirton

M.Sc.

DEPUTY DIRECTOR,
RESEARCH AND ECONOMIC ANALYSIS

Mr. Peter deC. Rochester

M.B.A.

DEPUTY DIRECTOR,
MANAGEMENT INFORMATION SYSTEMS

Ms. Angela Skeete

M.A.

CHIEF, INFORMATION SERVICES,
RESEARCH AND ECONOMIC ANALYSIS

1. CORPORATE GOVERNANCE

Board Matters

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

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

Cleviston Haynes was substantively appointed as Governor of the Bank with effect from January 1, 2018.

Composition of the Board

The Central Bank of Barbados Act provides for a Board consisting of the Governor as Chairman, the Director of Finance and Economic Affairs and five other Directors who are required to be persons of recognized experience in the areas of law, economics,

finance and business. Following the general election, the Board was reconstituted effective July 1, 2018. Dr. Justin Robinson was reappointed while Trevor Campbell, Professor Nlandu Mamingi, and Joseph Ward joined the Board as non-executive directors. Ian Carrington, the new Director of Finance and Economic Affairs, also joined the Board on July 1. There is one vacancy.

The Bank wishes to express its appreciation for the service rendered by its outgoing Directors Bjorn Bjerkhavn, Peter Carter, Cecil McCarthy, Onika Stewart and Louis Woodroffe, the former Director of Finance and Economic Affairs.

The Bank Secretary, Elson Gaskin, is the officer chiefly responsible for Board administration. The two Deputy Governors of the Bank also attend all Board meetings but are only entitled to vote if, in the absence or disability of the Governor, one of them is chairing a Board meeting. At present there are two acting Deputy Governors in the persons of Michael Carrington and Michelle Doyle-Lowe.

Sub-committees of the Board

There is one sub-committee of the Board, namely the Audit Committee. This committee addresses matters pertaining to the internal and external audit functions of the Bank, including reviewing the draft audited financial statements of the Bank, in conjunction with the external auditors, prior to the said statements being approved by the Board. The Audit Committee comprises Joseph Ward (Chairman), Trevor Campbell and Dr. Justin Robinson. It should be noted that all members of the Audit Committee are non-executive Directors. It is expected that the Audit Committee's mandate will be expanded in 2019 to include Risk Management. Apart from the Audit Committee, a member of the Board in the person of Professor Nlandu Mamingi also sits on the Committee of Management of the Staff Pension Fund.

During the year under review, the Audit Committee met four times and was active in discussions related to the future adoption by the Bank of the IFRS accounting standard and the impact on the Bank's financial statements of

the Government's domestic debt restructuring.

Meetings of the Board

The Board is statutorily mandated to meet as often as the business of the Bank requires but not less frequently than 10 times in each year. Not more than two months must elapse between one meeting of the Board and the next meeting.

Four Directors, of whom one must be the Governor, or in case of his absence or disability, a Deputy Governor, form a quorum at any meeting, and

decisions are adopted by a simple majority of the votes of the members present. In the event of an equality of votes the Chairman may exercise a second or casting vote.

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 2018 in addition to two special meetings. Among the matters considered in the year under review

were economic developments and monetary policy, the impact of the domestic debt restructuring on the Bank's capital, the administrative budget, human resource issues, strategic planning, and other matters subject to periodic reporting.

2. MACROECONOMIC DEVELOPMENTS

Overview

Economic developments in 2018 were influenced by the new administration's approach to the International Monetary Fund (IMF) for endorsement of its home-grown Barbados Economic Recovery and Transformation (BERT) plan. The speedy negotiation of a four-year economic adjustment programme enabled Government to catalyse resources from the Inter-American Development Bank and the Caribbean Development Bank and to rebuild its reserve buffers. Government implemented a comprehensive restructuring of its domestic debt that included a reduction in the stock of debt and suspended payments on its external commercial debt obligations so as to create fiscal space and close external financing gaps. These initiatives complemented broader efforts of fiscal consolidation, inclusive of

public sector reforms, and placed the economy on a path to fiscal and debt sustainability. Economic activity was sluggish, but Government committed itself to undertake structural reforms to stimulate medium-term economic growth. By year-end there was evidence of renewed confidence in the economy.

Real Sector

Real economic activity declined by 0.6 percent reflecting depressed manufacturing output, low levels of infrastructural development within the construction sector and weak consumer demand in distribution and other services. This outweighed the moderate gains in tourism and agriculture, which was boosted by a 14.9 percent increase in sugar production following on a 43.8 percent increase in output in 2017. However, the raw sugar produced was used principally for domestic

consumption. Non-sugar Agriculture grew by one percent as the declines in milk and fish production were mitigated by growth in the production of chicken and other meats.

Activity in the tourism sector increased by 0.6 percent despite recording a 2.8 percent increase in long-stay visitors, mainly from the US market, which is characterised by shorter staying visitors. Arrivals from Canada and the United Kingdom were both up, with the latter recovering from a mild reduction in the previous year. Cruise visitors for the year fell by almost 10 percent as ships returned to their usual itinerary, after the re-routing of vessels in 2017 due to the effects of hurricanes.

Table 1: Long-stay Arrivals by Source Market ('000)

	January - December			
	2015	2016	2017	2018
U.S.A.	148.1	168.9	188.5	204.3
Canada	74.6	78.9	85.1	86.2
U.K.	214.2	218.6	217.4	221.2
Germany	12.3	11.5	11.2	10.6
Other Europe	28.5	28.3	29.0	28.0
Trinidad & Tobago	29.7	34.0	35.8	32.7
CARICOM	58.3	65.7	67.1	70.4
Other Countries	26.3	25.6	27.1	25.8
TOTAL LONG-STAY	592.0	631.5	661.2	679.2

Source: Barbados Statistical Service (BSS)

Table 2: Key Production Indicators (% Change)

Activity	Indicators	2016	2017	2018
Tourism	Long-stay arrivals	6.7	4.7	2.8
	Average Length-of-Stay	-1.6	-1.6	-1.0
	Cruise arrivals	1.3	14.7	-9.7
	Cruise calls	7.3	19.3	-13.8
Agriculture	Sugar	-32.3	43.8	14.9
	Non-Sugar Agriculture*	0.2	-5.3	1.9
Construction	Consumption of Construction Materials	-5.0	0.4	-0.1
	Imports of Construction Materials	-0.5	3.3	-12.6
Electricity	Total Electricity Consumption	-8.4	13.8	0.0
	Solar Generation	19.8	-7.6	31.6
Oil and Gas	Crude Oil Production	-7.4	1.0	-6.5
	Natural Gas Production	-14.2	-13.3	-3.3
Water	Water production	-4.0	0.1	3.6

Note: *Actual data to September 2018

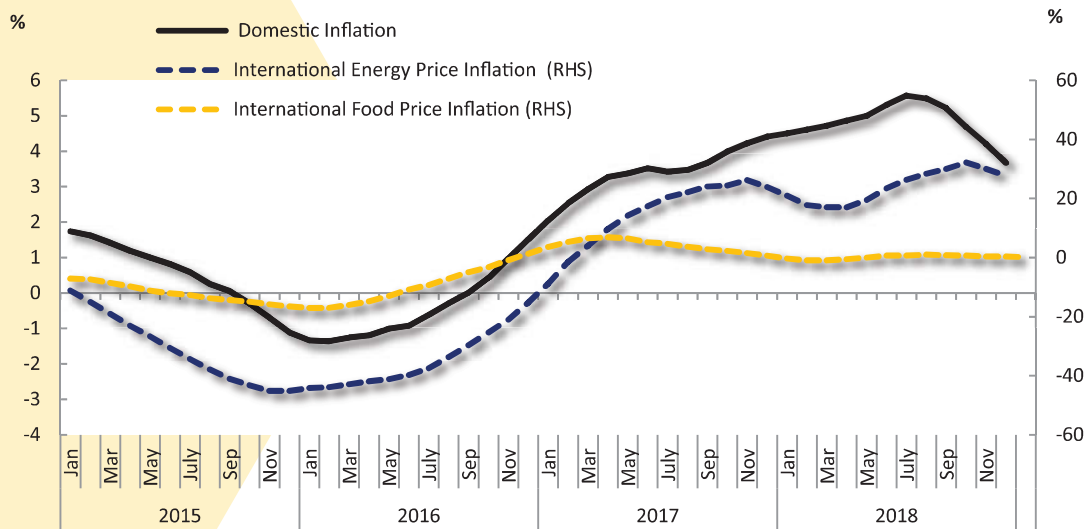
Source: Central Bank of Barbados, BSS, Barbados Light and Power Company Limited, Barbados National Oil Company and Barbados Water Authority

Public sector layoffs in the last quarter of 2018 contributed to the marginal increase in the unemployment rate, which at the end of December stood at 10.1 percent. The uptick in the twelve-month moving average measure of inflation tapered off

during the second half of the year. Imported commodity food prices remained stable but the pass-through effects from the 2017 hike in the National Social Responsibility Levy (NSRL) together with rising oil prices pushed up inflation during the

first half of the year. During the latter half of 2018, the removal of the NSRL combined with lower international oil prices helped to contain the rate of inflation to 3.7 percent at year end.

Figure 1: Twelve-Month Moving Average Inflation



Source: Barbados Statistical Services and World Bank Indicators

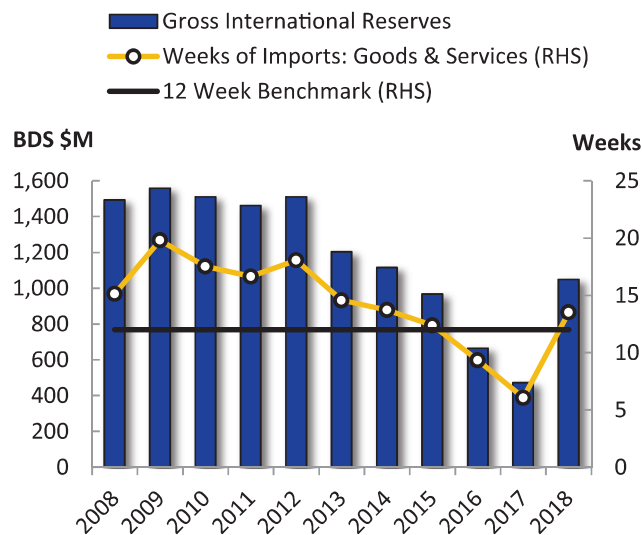
External Sector

Participation in an IMF-supported programme unlocked access to multilateral financing, improving the financial account over the period. The substantial multilateral financing received during the last quarter of

2018 from the International Monetary Fund (IMF), Caribbean Development Bank (CDB) and Inter-American Development Bank (IADB) boosted the international reserves to \$1,047.0 million, representing the first increase since 2012. The import cover returned to a healthy level of 13.5 weeks of

imports of goods and services after not being above the twelve-week benchmark since 2015. The suspension of Government’s commercial foreign debt payments also contributed to foreign currency savings outflows and allowed the reserves to stabilise before the infusion of multilateral financing.

Figure 2: Gross International Reserves



Source: Central Bank of Barbados

The current account deficit fell to 3.7 percent of GDP principally due to reduced foreign interest payments, the increase in travel credits and lower imports resulting from dampened aggregate demand. Capital goods and non-oil intermediate goods contracted as imports of both machinery and construction materials declined. Consumer goods also fell by 3.3 percent, following a 7.1 percent reduction the previous year. The decline was partly related to lower imports of motor vehicles and furniture. Higher average international fuel prices during the year contributed

to an increase in the total value of fuel imports. Prices were up by 19.9 percent but they remained below the recent peaks in 2012.

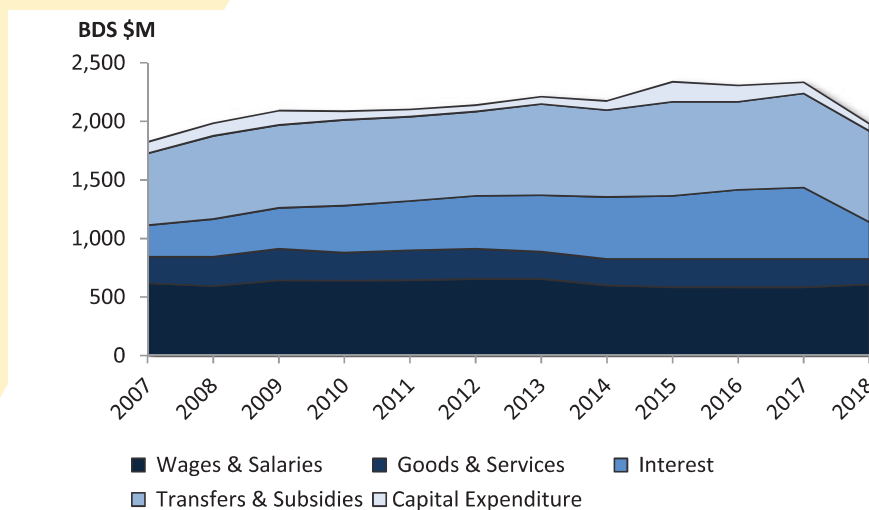
Public Finances

Public finances between April and December 2018 improved significantly as the Government achieved a modest fiscal surplus. The improved performance was evidenced by the timely payment of current year tax refunds, the curtailing of new Central Government’s arrears and reduced reliance on Central Bank

financing. This strengthening was reflected in Government’s ability to more than meet the performance criteria for the primary balance under the IMF Programme, as at December 2018.

Reduced interest costs associated with the suspension of commercial external debt payments and the lower interest rates on domestic Government securities, effective October 1, contributed substantially to the overall fiscal outturn. Interest costs absorbed 15.1 percent of revenue compared to 30.6 percent

Figure 3: Expenditure by Category



Source: Ministry of Finance

in the comparable period of 2017. Wages rose as a result of the 5% wages settlement for public sector workers, but the fiscal performance also benefitted from non-interest savings, resulting from reduced transfers. Revenue receipts were \$108 million higher than the 2017/18 outturn due primarily to inflows associated with the new budgetary measures. The new fuel tax realised \$35 million during the period while the foreign exchange fee which was introduced in July 2017 yielded \$56 million in tax receipts over the period. There were also gains for corporate taxes and property taxes, with improvements in corporate taxes reflecting significant first time payments by the recently registered international business companies while property taxes benefited from the tax amnesty.

Dampened demand led to a contraction in import dependent taxes, with import duties, value added and excise tax all registering declines. In addition, the NSRL collections fell from \$106.2 million in the period April to December 2017 to \$49.3 million in the corresponding period in 2018 following its discontinuation.

Government recorded net foreign financing of \$357 million in the April to December 2018 period, reflecting the policy loans received from multilateral agencies (IADB and CDB) and the project funds received. This contrasts with the net outflow of \$115 million recorded in the same period of 2017 when foreign amortisation payments of \$200 million outweighed the \$85 million inflow of project funds. The 2018 reduction in amortisation payments of \$69 million was due primarily to the suspension of commercial foreign payments. As a result, net financing from the Central Bank declined significantly.

Government successfully completed a debt exchange offer for its domestic debt securities and accumulated domestic arrears. This exchange encompassed interest rate reductions, extension of maturities and selective principal reductions, in order to complement the broader fiscal adjustment by reducing interest costs and lowering refinancing risks to create fiscal space. A debt exchange for its foreign currency commercial loans is planned, execution of which will facilitate a resumption of external debt service, which has been suspended since June 1, 2018.

At yearend, the stock of debt was reduced to \$12.8 billion.

The conclusion of the domestic debt restructuring resulted in an upgrade of the domestic debt ratings by Standard and Poors and Caricris.

Financial System

The financial system continued to be very liquid, the result of weak credit growth and a modest expansion in deposits. Commercial banks increased their cash balances with the Bank, raising the excess cash ratio to 16.2 percent. The excess securities ratio also increased, partly because the improved fiscal position allowed the Bank to reduce the commercial banks' securities requirement ratio from 20 percent to 17.5 percent. The debt restructuring and implementation of IFRS 9 adversely impacted the balance sheets of commercial banks, but capital adequacy ratios remained above the minimum regulatory level as a result of the previously strong capital ratios.

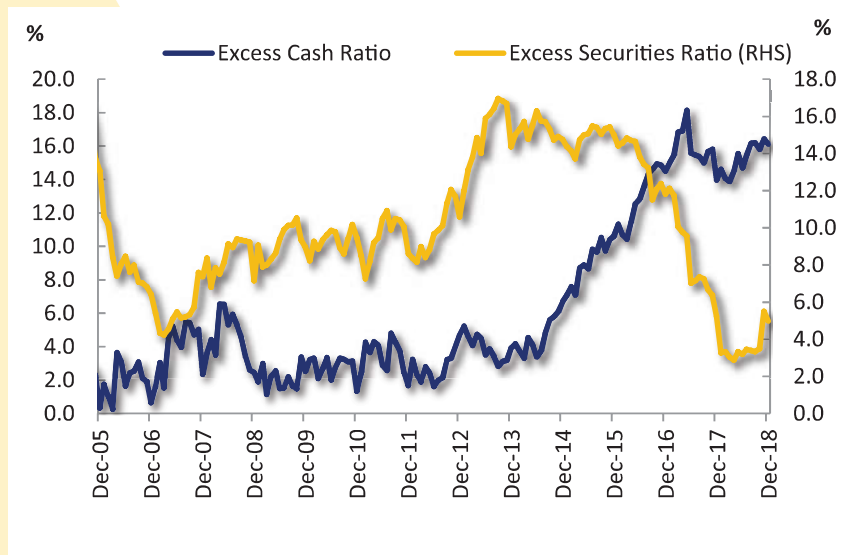
The underlying credit to the non-financial private sector declined by approximately 0.5 percent after adjusting for an intra-group amalgamation of a commercial bank and a trust and finance company.

Increased borrowings were registered to the distribution sector while loans to real estate and to hotels and restaurants declined. Domestic deposits were up by 3 percent.

The interest rate environment remained low as banks continued to offer low deposit rates to their customers, with the average deposit rate

remaining at 0.2 percent. Loan rates, especially on new mortgages, were at historic lows.

Figure 4: Excess Reserve Ratios of Commercial Banks



Source: Central Bank of Barbados

Table 3: Leading Economic Indicators

	2012	2013	2014	2015	2016	2017	2018 ^(p)
Nominal GDP (\$ Million) ¹	9,220.2	9,354.5	9,392.7	9,450.9	9,681.3	9,979.0	10,263.9
Real Growth (%)	0.2	-1.4	0.0	2.2	2.5	0.1	-0.6
Inflation (%)	4.5	1.8	1.8	(1.1)	1.5	4.5	3.7
Avg. Unemployment (%) ²	11.5	11.6	12.3	11.3	9.7	10.0	10.1
Gross International Reserves (\$ Millions)	1,510.3	1,203.6	1,116.3	967.9	665.5	473.4	1,047.0
Gross International Reserves Cover, Weeks	18.1	14.6	13.7	12.4	8.5	6.1	13.5
BoP Current Account (% of GDP)	(8.5)	(8.4)	(9.2)	(6.1)	(4.3)	(3.8)	(3.7)
Total Imports of Goods (% of GDP)	36.6	35.9	35.2	32.5	31.8	30.5	29.2
Travel Credits (% of GDP)	20.1	20.7	18.9	20.0	21.5	21.7	21.7
Financial Account (\$ Millions)	312.7	518.4	745.6	442.3	84.2	86.3	891.3
Gross Public Sector Debt ³ (% of GDP)	119.8	131.5	137.0	144.2	151.2	148.4	125.0
External Debt Service to Current Account Credit	6.4	6.4	6.7	9.5	8.0	8.3	4.9
Excess Cash Ratio	4.7	3.9	6.7	10.6	14.5	14.1	16.2
Private Sector Credit (% of GDP) [*]	62.3	60.1	57.1	57.1	56.3	56.3	58.1
Domestic Deposits (% of GDP)	86.3	87.4	86.0	89.2	90.8	88.2	86.5
Fiscal Year	2012/13	2013/14	2014/15	2015 Apr-Dec	2016 Apr-Dec	2017 Apr-Dec	2018 ^(p) Apr-Dec
Fiscal Deficit (% of GDP)	(7.9)	(10.3)	(7.6)	(7.0)	(6.1)	(3.6)	1.1
Primary Balance (% of GDP)	(1.8)	(3.7)	(0.5)	(1.4)	(0.1)	2.4	4.1
Interest (% of GDP)	6.1	6.5	7.0	5.7	6.0	6.0	3.0
Revenue (% of GDP)	26.3	25.0	25.8	17.7	17.6	19.7	20.2
Expenditure (% of GDP)	34.2	35.3	33.4	24.7	23.7	23.4	19.0
<i>Non-interest Expenditure (% of GDP)</i>	28.1	28.7	26.4	19.0	17.7	17.3	16.1
<i>Capital Expenditure (% of GDP)</i>	1.3	1.8	2.1	2.0	1.6	1.1	0.7
Gov't Interest Payments (% of Revenue)	23.2	26.1	27.2	32.0	34.0	30.6	15.1

^(p) - Provisional¹ - Barbados Statistical Service and Central Bank of Barbados Estimates² - Data for 2017 and 2018 to September³ - 2018 annual data*Reflects the financial consolidation of a finance and trust company and its parent bank
Source: Barbados Statistical Service and Central Bank of Barbados

3. FINANCIAL STABILITY

Supervision

At yearend, the Bank supervised 42 financial institutions. Two near-

banks were granted permission to amalgamate under Part III of the Financial Institutions Act (FIA), while another amalgamated with its

banking affiliate. The international sector continued to contract, with another international bank completing its winding-up process.

Table 4: Licensed Financial Institutions

Type of Institution	2010	2011	2012	2013	2014	2015	2016	2017	2018
Domestic									
- Commercial Banks	7	7	6	6	6	5	5	5	5
- Bank Holding Company	1	1	1	1	1	1	1	1	1
- Part III Companies	13	13	12	12	12	13	13	14	12
Total Domestic	21	21	19	19	19	19	19	20	17
International	45	45	46	40	36	28	25	25	24
Total Licensed Institutions	66	66	65	59	55	47	44	45	41

Risk profiles on financial institutions continued to be refined through offsite surveillance, risk-based onsite inspections, and meetings with the sector. During 2018, the Bank's onsite programme focused on credit risk management, operational risk, anti-money laundering/combating the financing of terrorism (AML/CFT) and corporate governance.

Banking Regulation Framework

The Bank worked closely with the Financial Services Commission (FSC),

to develop and launch a regulatory sandbox for businesses offering innovative financial technology (FinTech) solutions. This initiative affords businesses the opportunity to test the viability of products and services being offered in a live but controlled environment, while simultaneously allowing the Bank and the FSC to gain a better understanding of risks. Going forward, the Bank and FSC will continue to collaborate as they seek to determine whether existing regulations are sufficient to protect consumers, or if new legislation is needed. One local company entered

into the sandbox, and testing related to that entity's e-payment solution was ongoing at the end of the year.

The regulation and supervision of institutions licensed under the FIA and the International Financial Services Act (IFSA) remained a critical element of the Bank's mandate of maintaining and promoting financial stability.

The Bank continued to improve the regulatory framework in compliance with international standards and best practices, and in response to emerging global developments.

During the year, the Bank maintained close working relationships with other domestic regulators and stakeholders, collaborating to address various national issues, including matters related to the Organisation for Economic Cooperation and Development's (OECD) Inclusive Framework on Base Erosion and Profit Shifting (BEPS), the Global Forum on Transparency and Exchange of Information for Tax Purposes and developments relating to the Caribbean Financial Action Task Force (CFATF). In addition, the Bank continued to participate in regional and international supervisory colleges and engaged both regional and international regulators as part of its consolidated supervision framework in keeping with Memoranda of Understanding in place.

In December, the IFSA was repealed and an omnibus Financial Institutions Act was created via the Financial Institutions (Amendment) Bill 2018. This legislation facilitates the continued regulation and supervision of those banking institutions conducting business which solely generate foreign currency as well as addresses recommendations arising from previous assessments of the

banking sector. These include making better provision for the effective supervision of financial institutions by the Bank, as well as the supervision of financial holding companies, the licensing and regulation of money or value transmission service providers and the regulation and supervision of a new class of licensee, to be known as the foreign currency earning bank.

Financial Stability

The Bank, as coordinator of the Financial Oversight Management Committee (FOMC), in conjunction with the Financial Services Commission, once again provided an annual evaluation of the health of the financial sector through the 2017 Financial Stability Report. The report revealed that the financial system was stable and resilient to economic shocks. With the announcement of the planned debt restructuring, the Bank's staff conducted several stress tests to ensure that the capital of financial institutions affected by the restructuring would not fall below statutory minimum levels.

4. CENTRAL BANK OPERATIONS

4.1 MONEY, CREDIT AND CAPITAL MARKETS

Government Bond Market

The performance of the economy and the subsequent decision to restructure the domestic debt of Government influenced the bond market during 2018. Early in the year, there was only one issue of treasury notes and one issue of debentures with a nominal aggregate value of \$100 million offered to the public. For the period January to September 2018, sales of treasury notes and debentures totalled \$21.4 million, including securities issued before 2018, but not fully subscribed, and a total of \$290 million in securities matured. The Government issued \$220.0 million in Demand Notes in relation to the resolution of the CLICO matter during 2018. Following its approval of the transfer of the life insurance business of British American Insurance Company Limited (BAICO), the government also issued \$93.2 million in securities.

During the course of the year, no new savings bond issues were offered to the public. Certificates presented



Governor Haynes (centre) and Avinash Persaud, Advisor to the Government, speak with Alison Saunders-Franklin during the Bank's media breakfast to discuss local debt restructuring.

for redemption or early surrender totalled \$28.7 million, resulting in an outstanding balance for savings bonds of \$139.6 million at the end of 2018. The savings bonds were not included in the debt restructuring.

Debt Restructuring

The Government of Barbados offered to exchange select Barbados dollar-denominated debt of the

Government of Barbados and certain state-owned enterprises (SOEs) for new debt instruments issued by the Government of Barbados. The new instruments were issued with lower interest rates and different maturity periods and moratoria on principal repayments, ranging from one year to 15 years. Some debt held by public institutions, including the Bank, was written off as part of the restructuring.

The Bank was charged with executing the local debt exchange, including acting as exchange agent with responsibility for the reconciliation of tenders submitted by bondholders and the determination of the results of the Government's Debt Restructuring offer. To facilitate this process, the Bank hosted a well-received debt exchange forum where information on the exchange offer was provided to holders of government securities to assist them with responding to the offer letters. Following the success of the exchange offer, the Bank issued the new instruments in dematerialised format. Interest payments and

limited amortisations were processed before yearend. No secondary market trades occurred between the completion of the domestic debt exchange in September and yearend.

At the end of the domestic debt restructuring exercise, the Bank assumed sole responsibility for the entire stock of Government's domestic debt issues.

Liquidity Management

The high level of excess liquidity in the banking system in 2018 resulted in no borrowings by the commercial banks from the Bank. In the early months of 2018, the Bank continued to roll over its treasury bill holdings. In addition, the proceeds of \$181.7 million from medium-term securities holdings of the Bank that matured during the year were re-invested in treasury bills. At the end of September 2018, the Bank's holdings of treasury bills stood at \$1.53 billion but as a result of the restructuring, the value at yearend was \$207.2 million.

Trading in Foreign Exchange

The international reserves increased by \$576.3 million by yearend. This outcome was initially influenced by improved availability of foreign

exchange (FX) in the middle of the year which allowed FX dealers to increase their sales to the Central Bank. For example, commercial banks' net sales to the Bank amounted to \$129.8 million and their daily deposits of FX over the year totalled \$92.3 million. These flows were supplemented during the last quarter by capital inflows for policy and project loans of over \$470 million from international financial institutions.

The Bank embarked on a comprehensive review of its governing foreign exchange circulars and directives to enhance the policy framework in a changing economic environment. This work is expected to be finalized during 2019. In addition, training was conducted for two foreign currency authorised dealers, and meetings held with the sector to introduce participants to the proposed Online Application Processing Tool.

Enhanced Credit Guarantee Fund

The Enhanced Credit Guarantee Fund recorded a significant increase in both the number and value of guarantees issued. During the year 24 guarantees totalling \$15.8 million were approved,

compared to 12 guarantees amounting to \$5.7 million in 2017.

Foreign currency capital contributions totalling \$17.0 million received during the year brought the cumulative amount for the project to \$30 million at December 31, 2018.

Export Credits & Guarantees

The number of small and medium-sized enterprises using the collateral support provided under the credit guarantee scheme totalled 48 during the year under review. At yearend, there were 54 guarantees outstanding with a maximum liability of \$2.5 million. One tourism loan guarantee for \$150,000 provided through the facility increased the supported credits to \$5.6 million. At December 31, 2018, there were no outstanding liabilities for insurance business under the Export Credit Insurance, nor were any guarantees outstanding under the Export Finance Guarantee.

Trade Receivables Liquidity Facility

Two small businesses obtained financing under the Trade Receivables Liquidity Facility compared to four small businesses

which used the facility in 2017. However, the value of the guarantees issued in 2018 amounted to \$310,385, an increase of 25.4 percent over 2017. At the end of the year, there were no guarantees outstanding.

Industrial Credit Fund

The weak demand for credit and the associated high liquidity in the

banking sector continued to impact the performance of the Industrial Credit Fund (ICF). Again, no loan applications were received by the ICF and no disbursements were made. The balance of loans approved but undisbursed was \$11.6 million at yearend and the outstanding loan portfolio had fallen to \$3.3 million.

Housing Credit Fund

The level of inactivity in the Housing Credit Fund (HCF) continued during fiscal year 2018. No loan approvals or disbursements were made during the year. The loan portfolio fell to \$60.7 million.

Table 5: Indicators of ICF Operations

<i>(BDS \$Millions)</i>				
INDICATORS	2015	2016	2017	2018 ^(p)
Loan Approvals	0.8	0.0	0.0	0.0
Loan Disbursements	0.5	0.3	0.0	0.0
Principal Repayments	5.5	12.9	6.7	1.1
Loans Outstanding	23.8	11.1	4.4	3.3

(p) provisional

Table 6: Key Indicators of HCF Operations

<i>(BDS \$Millions)</i>				
INDICATORS	2015	2016	2017	2018 ^(p)
Loan Approvals	1.05	0.0	0.0	0.0
Loan Disbursements	0.0	0.0	0.0	0.0
Principal Repayments	8.2	8.1	13.5	6.6
Loans Outstanding	88.9	80.8	67.3	60.7

(p) provisional

4.2 CURRENCY AND PAYMENTS OPERATIONS

Currency Operations

The value of currency in circulation during 2018 grew by \$34 million to \$785.1 million¹. Banknotes accounted for most of the increase, and represented 92 percent of the total value of currency in circulation. Cash continues to be an important means of payment illustrated by the

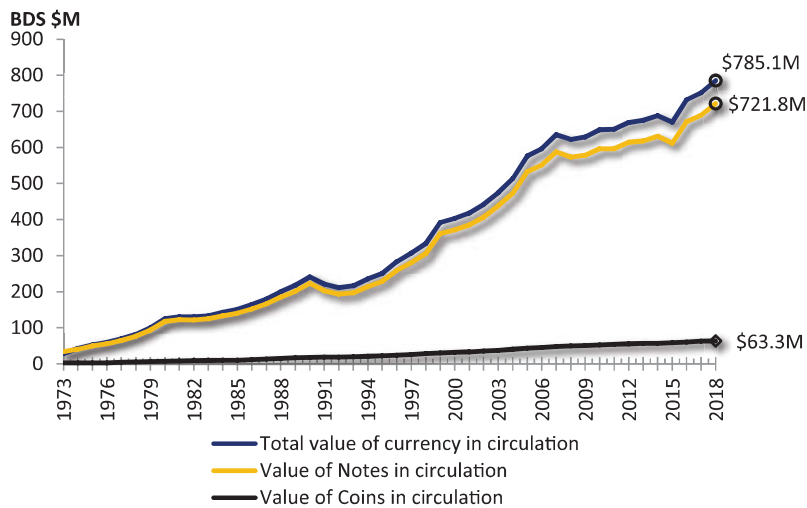
chart below. After climbing from 7.1 percent in 2015 to 7.6 percent in 2016, currency as a proportion to GDP has remained constant, and was again 7.6 percent in 2018.

Issues and Deposits

Issues of currency rose by \$90 million in 2018, a significant reversal from the

small contraction recorded in 2017. Banknotes accounted for 99 percent of the value of currency entered into circulation as well as the currency deposited with the Bank during the year.

Figure 5: Value of Currency in Circulation



Source: Central Bank of Barbados

¹ Currency in circulation is dictated by two factors, currency issued to the public and currency redeemed. The amount of currency issued depends on the demands of the public. Currency deposited is a function of the commercial banks' reserve requirements, insurance limits and forecast requirements for cash. The Bank also dictates that notes unfit for circulation be deposited and destroyed. Circulation increases when issues exceed deposits and decreases when deposits are more than issues at any point in time.



Counterfeit detection training is routinely organised in conjunction with the Royal Barbados Police Force, for cashiers, bank tellers, vendors and others who routinely handle large amounts of cash.

Counterfeit Deterrence

There was ongoing exposure by Bank staff to courses in banknote and currency management, as well as counterfeit detection. The Bank also continued its “Know Your Money”

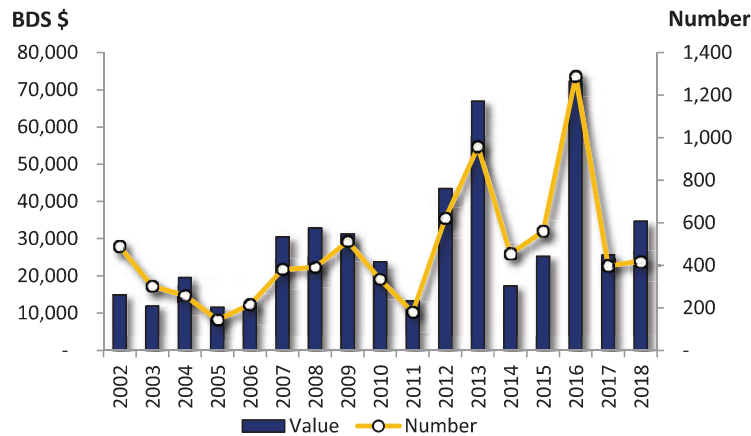
training to the public, enhancing and intensifying the outreach to retailers, schools, cash in transit handlers, the general public and financial institutions, offering 32 seminars during the course of the year. Towards the end of November, the Bank’s stakeholders were trained in the various techniques to authenticate, foreign notes, namely United States dollars, Euros and Pound Sterling notes. This training is expected to be expanded to include Canadian banknotes.

A free app available on Google Play and the Apple App Store, along with tips posted to our social media platforms, served to remind the general public of features to look for in genuine bank notes.

The banknote application, “Barbadian Banknotes: Are Yours Real?” was upgraded during 2018 to include more information on features of the notes, as well as procedures a person should follow should he or she receive a counterfeit note. Other enhancements included a larger font size and increased user-friendliness.

During the year, 419 counterfeit banknotes were removed from circulation, a marginal increase, with the \$100 note accounting for 76 percent of the total removals. Of these, 47.7 percent were counterfeits of the 2013 series. Counterfeits of the other denominations fell, with only 44 counterfeit \$20s being removed from circulation compared to the 89 in 2017.

Figure 6: Number of Counterfeit Notes



Source: Central Bank of Barbados

Numismatic Programme

Ten legal tender commemorative coins were issued for sale to collectors outside of Barbados during 2018 as part of the Bank’s royalty arrangements. The most popular of these was the \$1 dollar silver bullion coin featuring the sea horse, of which 10,000 were already taken or ordered by year end.

Payment Systems

The throughput of the Automated Clearing House (ACH), decreased in volume from 5.6 million in 2013 to 5.1 million in 2018. The volume of cheques showed a continuous

decline falling by 19.3 percent over the five years whereas the volume of direct payments (DP) increased moving from 1.1 million payments in 2013 to 1.4 million at the end of 2018. The total value of ACH transactions was \$19.6 billion with cheques accounting for \$17.2 billion and direct payments \$2.4 billion.

Consumers increasingly preferred to make payments at point of sale (POS) rather than use the automated teller machines (ATM) wherein both the volume and values at POS increased significantly by 55.6 percent and 45.3 percent, respectively since 2013. However the value of ATM transactions remained above the

value of POS transactions albeit with a gradual narrowing of the gap.

The value of ATM transactions increased by 11.3 percent, in spite of the fall in volume of 2.3 percent. The value of transactions via the real time gross settlement system (RTGS) decreased to \$27.0 billion at the end of the year compared to a five-year high of \$36.8 billion in 2017. The unavailability of securities on both the primary and secondary markets accounted for the decline in 2018. Other means of electronic payments also registered increased activity.

Figure 7: ACH - Volume and Value

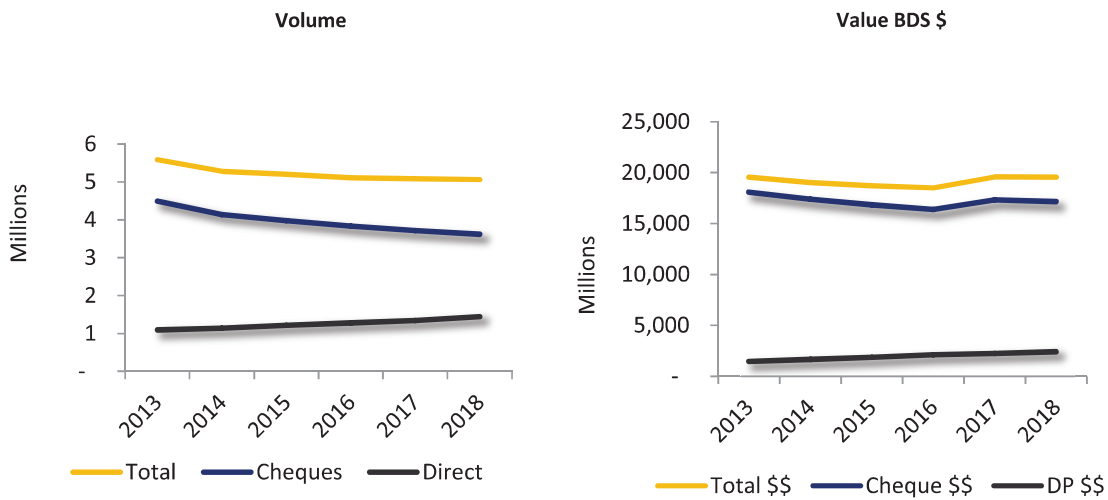


Figure 8: Volume and Value of ATM and POS Transactions

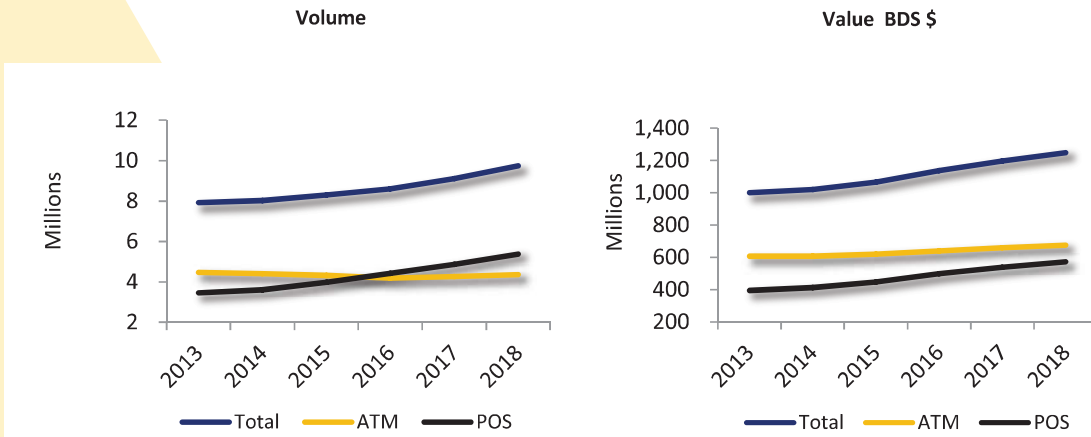
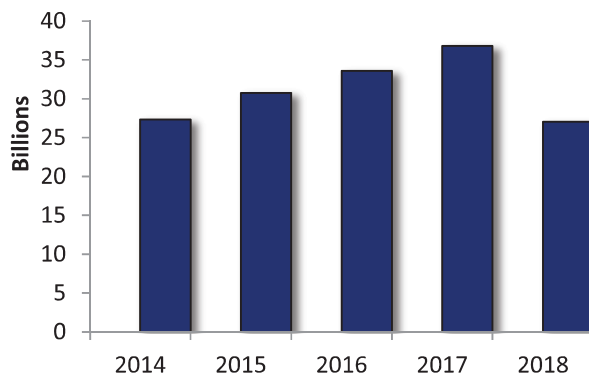


Figure 9: Real Time Gross Settlement System (RTGS) 2014-2018 – BDS\$



4.3 RISK MANAGEMENT



Led by Janice Marshall (right) and comprised of staff at all levels, the Strategic Planning Committee coordinated the production of the Bank's new strategic plan and developed systems for monitoring progress towards achieving the targets.

Strategic Planning

In recognition of the need to manage its strategic risks, the Board approved the establishment of a Strategic Planning and Risk Management Unit. This unit will have dual responsibility for monitoring execution of the Bank's strategic plans and the development of systems for improving risk management across the organisation. In order to boost the efforts of the new unit, a decision was taken to automate the strategic planning process, and steps were taken late in the year to assess and procure the best available software capable of meeting our needs. The automation will result in improved implementation, facilitate effective

monitoring and measurement of our achievements under the plan, and aid in mitigating risks.

Business Continuity

During the year, the Bank revisited its business continuity and disaster recovery plans. To this end, failover procedures were developed for key activities, and a successful failover exercise was carried out at the Bank's hot site in which staff members were able to follow procedures and complete the day's work from that site.

Financial Management

The Bank advanced its efforts to implement and enhance controls to

address financial risk management as it pertains to exposures related to: credit risk, currency risk, liquidity risk and interest rate risk. A review of the Bank's controls and procedures in this regard was undertaken as part of the IMF Safeguards Assessment exercise of the Bank.

In the latter part of the year, tighter limitations were established on the amount of lending the Bank could provide to Government, which inherently serves to contain the Bank's credit risk exposure. Parliament approved the Central Bank of Barbados (Amendment) Act 2018, which limits the Bank's indebtedness to the Government on holdings of primary issues of securities in any financial year to a nominal value of ten percent of the estimated expenditure of the Government in that financial year. Additionally, the Bank's temporary advances to Government, which is based on the statutory limit under the Financial Management and Audit (Amendment) Act 2018, was reduced from a maximum of ten percent to seven and a half percent of the net receipts of the estimated revenue of the Government for a financial year.

In an effort to standardise the Bank's corporate policies to establish the conduct required of staff and specific internal control systems in which all employees understand their role and obligations, the Bank revised its financial rules and developed new procurement rules to govern all aspects of the acquisition of goods and services.

Internal Audit

Assurance and consulting audits across several departments were completed and the reports circulated to the Audit Committee of the Board and Senior Management. Audits performed included a review of compliance with the Customer Security Programme (CSP) as required by the Society Worldwide Interbank Financial Telecommunications (SWIFT) in light of heightened cyber-attacks on financial institutions such as central banks internationally and regionally. The SWIFT-CSP programme requires a demonstration of knowledge of customers across the spectrum of activities locally and internationally, which had to be verified by Internal Audit. During the year, internal audit skills

were enhanced through participation in a conference on governance, risk and control organised by the Institute of Internal Auditors.

Information Security

The Bank undertook two major information technology infrastructure upgrades in 2018. These closely integrated projects were network and security upgrades for both the Tom Adams Financial Centre (TAFC) and the hot site.

Bank-wide mandatory cybersecurity awareness training was completed by all staff. This was complemented by updates to Information and Communications Technology (ICT) antivirus definitions as part of the Bank's defensive security arsenal to mitigate the burgeoning threat of malware prevalent in the execution of financial fraud, disruption and mischief.

Plant Maintenance

The Bank's building maintenance programme focused primarily on energy efficiency through the introduction of a new chiller-cooling

system and upgrading to energy efficient LED lights in heavily used areas. In addition, there were major upgrades and expanded capacity to the Air Conditioning System with the installation of new equipment. A new building management system was acquired that will lead to better monitoring and control of cooling, lighting and fire prevention around the facility. This will lead to greater efficiencies and a more stable system.

Health and Safety

To maintain compliance with the requirements of the labour legislation, a policy document on health and safety was formulated and meetings held with staff to explain its parameters. Special training was also provided to members of the Health and Safety Committee and all safety officers on the Health and Safety at Work Act. Staff continued to utilise the Bank-sponsored services and facilities provided for monitoring, maintaining and enhancing their health through the routine visits of the nurse, nutritionist and counsellor as well as the usage of the in-house gym.

4.4 INFORMATION TECHNOLOGY

The Bank sought to increase and improve its use of ICT to enhance organisational and operational efficiency in 2018. The improvements were seen in the extended

reports produced to monitor the BERT programme and the new registers required to facilitate the various instruments arising out of the debt exchange exercise.

The “Greening IT” initiative is ongoing. The Bank has significantly reduced the number of cheques generated to both staff and local institutions, and will continue to reduce printing.

4.5 PEOPLE AND PROGRAMMES

The Bank focused on fostering a team-oriented institution, thereby strengthening its internal capacity to respond to challenges. The intranet became the central information hub for staff, and was used to disseminate two new staff-centred, recurring features. The first was “In the Spotlight”, which highlights the personal and professional accomplishments of members of the Bank staff and their families; and the second, the “Birthday Wall”, honouring staff on their special day by allowing colleagues to send greetings.

Early in the year, a Staff Appreciation Day was organised to show the Bank’s gratitude for the staff’s hard work and contribution to the organisation’s success, and later in the year, the “CBB Youth @ Work” forum provided an opportunity for the younger

members of staff to articulate how they could play a greater role in the Bank’s growth and development.

Another new programme was the “Living the Values” campaign, which promoted the Bank’s six corporate values. The campaign featured videos and written blogs from staff who explained why the values are important to them and how they are applied in their professional lives.

Training

Training programmes were organised for staff at all levels to ensure strengthened skills in areas such as business writing, customer service, supervisory management and health and safety. Other Bank-wide initiatives were introduced to provide greater understanding of local labour

legislation, sexual harassment (prevention) and team dynamics. The mandatory information security awareness training, started in 2018, will become a regular feature of the ICT environment.

In addition to job-related training, an in-house session on financial planning was beneficial for the staff’s personal development.

Education and Certification

Sharon Layne was awarded the Master of Business Administration degree in Banking from Edinburg Napier University, Shamika Walrond was awarded the Master of Science degree in Economics and Econometrics from the University of Nottingham, and Hope Husbands attained the Chartered Financial Analyst credential. Other staff



Knowledge management initiatives not only encouraged long serving staff to share knowledge and experience gained during their tenure, but also sought suggestions and feedback from younger staff like Shamika Waldron and Nikita Wharton during a special forum organised by the Human Resources Department.



The Retirees' Programme helps past employees to maintain a close connection with the Bank, and this year's reunion gave Shakera Williams (left) an opportunity to greet former colleague Joanna Shillingford, a recent retiree.

members received certification in anti-money laundering, project management, supervisory management, and management studies and facilities management.

Staff Movements

At the end of December 2018, the staff complement stood at 240, of these, 223 were permanent employees. There were two terminations and three resignations during the year, while 11 persons joined the

Bank's permanent establishment. The Bank lost several of its long-standing employees who retired during the year including: Marlene Bayne, Director, Bank Supervision Department; Karen Bostic, Bank Examiner; Peter Whitehall, Adviser to the Governor; Joycelyn Holdipp, Senior Credit Officer; Yvette Cheeseman and Arlette King, both Senior Administrative Assistants in the Governor's Office. Each of these retirees had been with the Bank for over 35 years.

Promotions

The following promotions occurred during the year:

- Cleviston Haynes, from Deputy Governor to Governor
- Pamela Arthur, from Assistant Director to Deputy Director, Human Resources
- Sue-Ann Bayley, from Administrative Assistant to Senior Administrative Assistance, Bank Supervision
- Wilma Belgrave, from Assistant Director to Deputy Director, Foreign Exchange and Export Credits
- Sheina Best, from Administrative Assistant, to Senior Administrative Assistant, Bank Supervision (She was subsequently transferred to the Human Resources Department)
- Peter Bishop, from Security Officer to Senior Security Officer, Governor's Office
- Donna Boyce-Jackman, from Clerical Officer to Exchange Control Officer, Foreign Exchange and Export Credits
- Novaline Brewster, from Public Affairs Officer to Chief, Corporate Communications, Governor's Office
- Darrin Downes, from Chief Research Economist to Chief Economist, Research & Economic Analysis Department(READ)
- Fabian Farrell, from Security Officer to Senior Security Officer, Governor's Office
- Calvert Franklyn, from Gardener to Maintenance Assistant, Facilities Management
- Charmaine Haywood, from Assistant Director to Deputy Director, MISD
- Janelle Holder, from Clerical Officer to Accounting Officer, Accounts
- DeVon Hunte, from Examiner to Bank Examiner, Bank Supervision
- Tamara Hurley, from Risk Assessment Analyst to Deputy Director, Bank Supervision
- Hope Husbands, from Examiner to Bank Examiner, Bank Supervision
- Olivia Husbands, from Statistical Officer to Economic Statistician, READ
- Jason Holder, from Clerical Officer to Accounting Officer, Accounts
- Christopher Kinch, from Research Officer to Economist, READ
- Jennifer Mason-St. Prix, from Clerical Officer to Banking Officer, Banking, Currency and Investments
- Angela Skeete, from Assistant Director to Chief, Information Services, READ

4.6 CORPORATE OUTREACH



The Bank's quarterly press conferences and major events are now routinely streamed live on the Bank's website and later packaged for dissemination via social media platforms such as Facebook, YouTube, Twitter and Instagram.

Throughout 2018, the Bank continued its long-running practice of public outreach through a variety of areas.

Quarterly Press Conferences

The Bank held four press conferences in 2018 in which Governor Cleviston Haynes delivered the Bank's review of the economy and updated the public on Barbados' performance. For each of these, a pre-recorded video release was prepared and a media lock-up organised for journalists to provide additional background information on some of the more complex issues.

A special session was also held for the media at which Governor Haynes unveiled and explained details of the debt restructuring programme.

Scholarships and Internships

University of the West Indies Scholarships

The Bank offered two scholarships, the Roland Craigwell Memorial Scholarship and the Central Bank of Barbados Scholarship, to second and final year students pursuing undergraduate degrees in Economics or Economics and a related discipline at the University of the West Indies Cave Hill Campus. These scholarships were won by Rashada Lopez and Jade Kirton. In addition to the cash award, both recipients were offered and completed three-month summer internships in the Bank's Research and Economic Analysis Department.

Summer Internships

Sixteen students from the Barbados Community College, the University of the West Indies Cave Hill and St. Augustine campuses, and the University of Tampa, Florida participated in

the Bank's long-running summer internship programme, among them Lopez and Kirton, the Bank's scholarship winners. The students are pursuing careers in a variety of disciplines, including Accounting, Communications, Economics, and Theatre Arts. Following their internships, six of the interns were offered extended placements with the Bank.

SPISE Scholarship

For the seventh consecutive year, the Bank sponsored a student to attend the four-week residential Students Programme for Innovation in Science and Engineering (SPISE) programme, which was founded to develop aspiring STEM (Science, Technology, Engineering and Math) students between the ages of 16 and 18. Shane Maughn, a 16-year old Queen's College student, was the Bank's 2018 SPISE scholar.

Social Media

The Bank recognises the opportunity it has to use its various platforms to reach, inform, and engage with the more than 190,000 active social media users in Barbados on economic and other issues. Thus, at

the start of 2018, the Bank set targets of increasing the number of followers on its Facebook, Twitter, and YouTube channels. By the end of the year, the Bank had exceeded its targets, with Facebook page likes growing by 30 percent, Twitter followers by 39.5 percent, and YouTube subscribers by 55.5 percent.

The four press conferences were livestreamed on the Bank's website and YouTube channel, and brief clips from the media briefings were posted to its Facebook page and Twitter account. Supplemental content from the press releases was disseminated as separate articles on the website, and some of the statistics tweeted individually on the Twitter account. The development of infographics highlighting key figures and statistics in the Bank's messages seemed to be particularly effective, and overall, this energised digital focus dramatically increased our social media following. The Financial Stability report was also placed on the websites of the Bank and the collaborating institution, the Financial Services Commission.

Another metric the Bank used to gauge the success of its social media strategy is the level of engagement it has with its audiences on its channels. Through the year, it presented

content not only on economic-related issues, but wider topics reflecting the Bank's activities and interests. This strategy is complemented by a content plan that has seen the Bank posting daily on its social media platforms, and all social media accounts recorded a marked increase in engagement.

Social media also was used to present a more human side of the Bank, and a number of short videos were produced to showcase domestic outreach activities. A four-episode feature, "Learning on the Job", tracked the experiences of some of the Bank's summer interns.

Events

Distinguished Visiting Fellow

The 5th Distinguished Visiting Fellow was Dr. Andrew K. Rose, a professor of Economic Analysis and Policy at the Haas School of Business at the University of California, Berkeley. The flagship event of Dr. Rose's visit was the Caribbean Economic Forum, where he addressed the topic, "Looking Forward: How Caribbean Nations Can Adapt to Global Developments." The 90-minute forum was broadcast on 13 radio and television stations across the region, and livestreamed on the Bank's website and YouTube

channel. During the follow-up Q&A session with the live audience, an online discussion was simultaneously being moderated by three local economists.

During his two weeks in Barbados, Rose was the featured speaker at two webinars, one for regional central banks and the other for students at all three physical campuses of the University of the West Indies and its Open Campus in St. Vincent, which focused on issues surrounding currency contagion. He also met with a number of high-ranking government officials, and conducted sessions for public and private sector entities as well as with staff of several of the Bank's departments.

Domestic Financial Institutions Conference

The Bank again joined with the Financial Services Commission to host a conference for the financial sector, the Domestic Financial Institutions Conference (DFIC), which is now in its ninth year.

The highlight of the conference was the presentation on "What Does Resiliency Mean and How Do You Build It?" presented by Professor Avinash Persaud, speaking in his capacity as Special Advisor to the



Professor Andrew K. Rose, the Bank's 5th Distinguished Visiting Fellow (centre), speaks with the Head of the Department of Economics at the University of the West Indies, Professor Winston Moore (right), and lecturer Dr. Ankie Scott-Joseph, following his webinar for students across all UWI campuses.

Prime Minister of Dominica. He warned of the new rules affecting the industry which could impact profits negatively, therefore being vigilant and willing to change the way business owners operate and respond to the rules will determine how they weather the external shocks coming their way.

More than 125 participants were presented with a range of topics, including the challenges often faced by smaller countries in implementing the accounting standard IFRS 9 and the impact the standard will have on the reporting of loan provisioning in the sector, and the role that the financial sector can play in developing non-traditional sectors such as renewable energy and the

cultural industries. A synopsis of the 2017 Financial Stability Report was presented.

Annual Review Seminar

The 2018 Annual Review Seminar's theme, "Macroeconomic Trends, Challenges and Solutions Facing Developing Countries in the 21st Century", promised to cover policy issues for many small Caribbean states. This was echoed in the welcome address by Governor Cleviston Haynes and also in the keynote address, delivered by Programme Coordinator of the Caribbean Regional Technical Assistance Centre (CARTAC) Dr. Wendell Samuel. His address, entitled "A Tale of Two Cities – Lessons for Economic Recovery"

drew on the experiences of two small nations, Antigua and Barbuda and the Seychelles, to outline how an IMF-supported economic recovery programme for Barbados could look. These economies with similar macroeconomic priorities and emphases diverged in the level of their success. The seminar ended with a technical workshop on using meta-analysis in economic research.

CARICOM Governors' Meetings

Top regional central bank officials were welcomed to Barbados as the Bank hosted the 50th and 51st bi-annual CARICOM Governors Meetings. In May, there were two days of discussion on FinTech, cybersecurity, central banking communications, business continuity planning, and Caribbean economics, following which the governors signed several memoranda of understanding. In November, a second meeting was held with the governors also discussing the impact of de-risking and correspondent banking on the region, and additional issues related to FinTech.

50th Annual Monetary Studies Conference

The November Governor's meeting coincided with the hosting of the 50th Annual Monetary Studies



The Bank hosted meetings of regional central bank governors, including (seated, from left) Dr. Gobind Ganga (Guyana); Ambassador A. Joy Grant (Belize); Cleviston Haynes (Barbados); Brian Wynter (Jamaica) and Glenn Gersie (Suriname); (standing, from left) Dr. Alvin Hilaire (Trinidad and Tobago); Timothy Antoine (Eastern Caribbean Central Bank); Jean Baden Dubois (Haiti); and John Rolle (Bahamas).

Conference, which the Bank assisted in organising. In his feature address, Minister in the Ministry of Finance, the Honourable Ryan Straughn, recognised the importance of research locally and regionally, also noting the importance of translating research into practical applications for government policy as well as private sector challenges. The conference focussed on topics including financial markets and financial stability, economic growth and resilience, fiscal issues and debt as well as tourism structure and performance. A panel discussion entitled “Rebuilding Caribbean Economies: A Regional Perspective on the Emerging Economic and Financial Issues” was moderated

by Governor Haynes and featured Governors Dr. Alvin Hilaire (Central Bank of Trinidad and Tobago) and Timothy Antoine (Eastern Caribbean Central Bank), along with Dr. Wayne Robinson, Deputy Governor of the Bank of Jamaica. Against the backdrop of the Conference, the 33rd Adlith Brown Memorial Lecture was also staged, with Dr. Arnold McIntyre delivering the feature address.

Sir Winston Scott Memorial Lecture

In November, the Bank welcomed Dr. Carissa Etienne, Director of the Pan American Health Organization (PAHO), as the speaker for the 43rd Sir Winston Scott Memorial Lecture. Speaking on “Healthcare Reform and the Role of Technology”, the

Dominican-born Etienne shared some of the work PAHO has been doing to promote universal access to healthcare and universal health coverage in the region. The address touched on a range of issues, including the importance of primary healthcare and the universal right to it, increased healthcare financing, the need for a people-centred approach, and the positive and negative implications of technology in healthcare.

Commitment to the Arts

The Frank Collymore Hall’s free sunset concerts and popular lunchtime concerts featured a number of regional and international artistes at its venues, the Frank Collymore Hall, the Courtney Blackman Grande Salle and Church Village Green. Cultural diversity was served up through collaborative efforts with the Embassies of Brazil, Cuba and Argentina along with a band of teenaged musicians from the UK and local artistes, enabling capacity audiences to enjoy genres of music and dance such as calypso, jazz, Latin and classical.

The Bank continued to provide support to the Central Bank of

Barbados Chorale, which joined forces with the Wesley Singers to travel to New Jersey, USA for a number of performances, as well as staged a joint Christmas Concert, “Messiah”, in Barbados upon their return.

Youth Pan Project

Further demonstrating its commitment to the arts, the youth and cultural industries of Barbados, the Bank continued its sponsorship of the Youth Pan Project (YPP) for school children aged nine to 18 years. Now in its 17th year, the summer camp attracted participants from 23 schools across the island. Once again, the Bank was able to benefit from the use of venues provided by the National Cultural Foundation, which co-sponsors the camp. The theme this year was “Coming of Age: Let’s Celebrate!” and the campers sharpened their research and presentation skills in developing group projects, while affording a deeper appreciation of Caribbean masquerade art forms and music culture. A new component to this year’s camp resulted in the production of a music video by the most experienced group, the “Young Professionals”. During the culminating event in Church Village Green, homage was paid to the late Lieutenant Joseph N. Griffith for his pioneering work in the development of the modern Steel Orchestra.



The 43rd Sir Winston Scott Memorial Lecturer, Dr. Carissa Etienne, Director of the Pan American Health Organisation (second from right), is greeted by Deputy Governor (Ag.) Michelle Doyle-Lowe (left) and members of the Scott family.



During the Youth Pan Extravaganza, the final event of the Bank’s summer steelpan camp, participants show off their skills while parading through Church Village Green before a packed audience of family, friends and pan enthusiasts.

Crop Over Visual Arts Festival

The Bank has recorded 26 unbroken years of sponsorship of the Cropover Visual Arts Festival and this year’s theme, “Memories.....From Then Till Now”, sought to explore the cultural significance of memory. Pieces were displayed in the Courtney

Blackman Grande Salle and the newly refurbished Queen’s Park Gallery. The winner of the Central Bank Governor’s Award was Justin Downey for his entry, “Progressive/ Regressive”, while the Central Bank Award of Excellence was presented to Anya Stephen for her piece, “Anecdote”.

Frank Collymore Literary Endowment

The 21st Frank Collymore Literary Endowment (FCLE) awards ceremony featured Professor Emeritus Funso Aiyejina, University of the West Indies, St. Augustine, who spoke on “Writing for Prizes, or Prizes for Writing? (Or Two Tales Told by an Idiot)”. During the ceremony, Governor Haynes announced the establishment of a

\$1 million endowment to provide additional financing for the FCLE, further reflecting the Bank’s ongoing commitment to the programme. While there was no first prize winner this year, two other prizes were awarded. A new initiative of the FCLE Committee involved members in the observance of Literacy Week in secondary schools, with the aims of exposing secondary

school students to more Barbadian writing and promoting the cross-disciplinary advantages of literature.

In addition, workshops were held during the year to strengthen the writing skills of past and current entrants to the competition.

Prize	Artist/Artisan	Entry	Category
1 st Prize	Not awarded	----	----
2 nd Prize	Dr. Hazel Simmons-McDonald	A Collection of Short Stories	Fiction
3 rd Prize	Sonia Williams	On Livity	Poetry

4.7 INTERNATIONAL OUTREACH

IMF/World Bank

Barbadian delegations, including the Governor and other public sector officials, attended the Spring and Annual Meetings of the Boards of Governors of the IMF and the World Bank Group in Washington, D.C. in April and October 2018. During the meetings the World Bank group launched a new Human Capital Index which supports long-term measurable progress towards better outcomes in education, health, nutrition and social protection. The index is timely in the light of the job losses due to economic down turn and

technological advances. The index is geared towards helping countries make more effective investments in their people. Attendees were also engaged in seminars, regional briefings, press conferences, and many other events focused on the global economy, international developments, and the world’s financial system.

Caribbean Regional Technical Assistance Centre (CARTAC)

In May 2018, the IMF Statistics Department in collaboration with CARTAC provided technical assistance

to the Bank and Barbados Statistical Service on improvements in the methodologies for the estimation of real GDP. Additionally, the Bank received technical assistance from the CARTAC in the area of External Sector Statistics (ESS) aimed at assessing and improving estimates of the Balance of Payments (BOP) and International Investment Positions (IIP). As a result, an action plan was formulated to deal with the compilation issues plaguing the timely production of the ESS. It also includes recommended actions to improve the foreign exchange transactions system, enhance business surveys and address data

gaps and nonresponse with administrative data. Finally, members of the Bank's Financial Stability Unit and Bank Supervision Department participated in CARTAC-sponsored training on the identification of systemically important financial institutions held at the Bank of Jamaica.

Policy Development

The Bank remains active regionally and internationally through its participation in the Caribbean Group of Banking Supervisors, Caribbean Financial Action Task Force, the Association of Supervisors of Banks of the Americas and the Group of International Finance Centre Supervisors, where issues pertinent to global standards and international financial matters are discussed and action plans formulated.

The Bank was represented on regional regulatory working groups to discuss matters such as loan classification and provisioning standards and financial stability. The Bank contributed significantly to the overhaul of the international business and financial services sector by lending assistance to the review and drafting of new and amended legislation to meet targets set by the Organisation for Economic Co-operation and Development (OECD).

In addition, the Bank participated in joint sessions with the Ministry of International

Business, the Financial Services Commission (FSC), the Barbados Revenue Authority and other partners to begin preparations for the next round of reviews for Barbados in relation to the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes.

The Bank is also represented on several technical working groups under the umbrella of the CARICOM Secretariat: Credit Reporting, Deposit Insurance and Correspondent Banking/De-risking. Due to the regulatory and other strategic requirements related to financial technology (FinTech), the Bank actively contributed to the work of the CARICOM FinTech Working Group and the Centre for Latin American Monetary Studies (CEMLA) FinTech Experts Forum.

In addition, the Bank continued to forge deeper ties with its counterparts in the region through presenting and participating in meetings of the various regional groups of central bankers in departmental areas such as information technology, human resources, security, legal, internal audit, currency, FinTech and payment systems. Such fora allow the regional central bankers opportunities to formulate harmonised policies in battling issues facing their institutions.

5. PUBLICATIONS AND PAPERS

Publications

Worrell, DeLisle, Winston Moore and Jamila Beckles. *"A New Approach to Exchange Rate Management in Small Open Financially Integrated Economies."* Handbook of Small States, Lino Brigulio, ed. (2018)

Papers presented at Conferences

Beckles, Jamila, Nlandu Mamingi and Nichelle Yearwood. *"Healthcare Expenditures in Latin America and the Caribbean: Trend, Determinants and Policy Implications."* 38th Central Bank Annual Review Seminar, Barbados, July 24-26, 2018.

Brei, Michael, Carlon Walkes and Lisa Brathwaite-Phillips. *"Reducing the Current Account Deficit in Barbados."* 38th Central Bank Annual Review Seminar, Barbados, July 24-26, 2018.

Gibson, Octavia. *"Anti-Counterfeiting and Education Strategies."* Seminar on Good Practice Banknote and Currency Management, April 24-27, 2018.

Khemraj, Tarron and Darrin Downes. *"Foreign Exchange Pressure in Barbados: Monetary Approach or Monetary Dependence?"* 50th Annual Monetary Studies Conference, November 6-8 2018.

Kinch, Christopher. *"The Impact of Natural Disasters on the Current Account Balance in Latin America and Caribbean Countries between 1980 and 2015."* 38th Central Bank Annual Review Seminar, Barbados, July 24-26, 2018.

Kirton, Jade and Laron Alleyne *"The Evolution of the Length of Stay in Barbados: Trends and Implications."* 38th Central Bank Annual Review Seminar, Barbados, July 24-26, 2018.

Lopez, Rashada, Michelle Doyle-Lowe and Runako Brathwaite. *"The Structure and Implications of Regulatory Sandboxes on the Development of Fintech in Barbados."* 38th Central Bank Annual Review Seminar, Barbados, July 24-26, 2018.

Mamingi, Nlandu and Darrin Downes. *"Impacts of Budget Deficits on Economic Growth in Barbados: An ARDL Bounds Testing Approach with Non-Linear and Interaction Effects."*

38th Central Bank Annual Review Seminar, Barbados, July 24-26, 2018.

Okey, Onoh-Obasi, Winston Moore, Laron Alleyne and Rudolph Browne. *"The Volatility of Tourism Demand and Real Effective Exchange Rates: The Impact on Arrivals to Barbados and Average Daily Expenditure."* 38th Central Bank Annual Review Seminar, Barbados, July 24-26, 2018.

Scott-Joseph, Ankie and Darrin Downes. *"Debt Re-profiling: Medicated for Success, Managing for Transferred Symptoms."* 38th Central Bank Annual Review Seminar, Barbados, July 24-26, 2018.

Singh, Brandon, Christopher Kinch and Winston Moore. *"Exchange Rate Pass-through in Small Open Economies."* 38th Central Bank Annual Review Seminar, Barbados, July 24-26, 2018.

Wharton, Nikita, Winston Moore and Christopher Kinch. *"Macroeconomic Impact of Greening Businesses in the Caribbean."* 38th Central Bank Annual Review Seminar, Barbados, July 24-26, 2018.

ADOPTION OF ANNUAL FINANCIAL STATEMENTS 2018

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

- Non-consolidation of entities owned and or managed by the Bank
- Employee accumulated leave
- Numismatic coins
- Financial instruments – disclosures, measurement and presentation

Management has concluded that the financial statements fairly present the Bank's financial position, financial performance and cash flow, and that it has complied with adopted IFRS. The Bank has recorded an accumulated deficit of \$1,674,742,155 as at December 31, 2018. This deficit was caused by significant non-recurring costs of \$1,692,371,410 which included the first time implementation of IFRS 9 and debt 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, and the write off of loans and related interest from New Life Investment Company Inc (NLICO) and Collectors and Recoveries Ltd (CRL).

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 flow to meet its operating requirements over the twelve months from the reporting date.

There are no pending legal or regulatory proceedings against the Bank that may, if successful, result in claims that are unlikely to be satisfied. The Bank may only be wound-up by an Act of Parliament and the sole shareholder has pledged continued support to the Bank including the development of a recapitalization plan by June 2020 under the conditionality of an International Monetary Fund – Enhanced Fund Facility (IMF-EFF).

Statement of Financial Position

The balance sheet decreased by \$1,063 million to reach \$1,872 million. The reserve of external assets increased by \$489 million representing inflows of \$101 million under the IMF-EFF and other inflows from international funding agencies.

Local assets decreased by \$1,552 million reflecting the write off of advances and the debt exchange of Government securities.

Notes and coins in circulation increased by \$34 million and commercial banks' deposits at the Bank increased by \$221 million, reflecting changes in liquidity in the banking system. Government deposits with the Bank increased by \$333 million.

Statement of Income and Comprehensive Loss

The Bank continued its risk-averse approach to securities management and accordingly, investments are not held to maximize earnings but to maintain economic stability and support Government policy. Total income decreased by \$21.1 million from \$99.2 million in 2017. Several factors influenced the performance, including lower yields on treasury bills, the reduced exposure to government after the debt exchange program, the write-off of accrued interest from government securities, decreased activity in the sale of foreign currencies; and foreign exchange losses, including on the IMF borrowing.

Operating Expenses

Total recurring expenses increased by \$8.2 million. There were modest increases in salaries and allowances, currency management costs and depreciation. However, retirement benefits increased by \$4.9 million as a result of amortising the staff pension fund deficit created by the domestic debt restructuring. Interest costs rose by \$2.8 million, mainly due to interest on the 2017 margin loan facility which was repaid during the year. Administrative Expenses decreased by \$1.6 million.

Results for the Year

The Bank recorded a deficit of \$1,589.5 million during the year.

Future Accounting Changes

The Bank's financial statements are currently prepared in accordance with the Central Bank Act and adopted IFRS with disclosure limitations. The Bank and the Ministry of Finance, Economic Affairs and Investment are in the process of revising the CBB Act and incorporating changes to the regulatory accounting and reporting framework which will require the Bank to prepare the financial statements for 2019 under full IFRS.

Adoption of Financial Statements

Annexed to this report are the draft Auditor's Certificate, Statement of Financial Position as at December 31, 2018, the Statement of Income and Comprehensive Loss, Statement of Changes in Equity and Statement of Cash Flows and explanatory notes to the financial statements.

The Board of Directors, on recommendation of the Audit Committee, has adopted the Financial Statements for the year ended December 31, 2018.

FINANCIAL STATEMENTS AND REPORTS

DECEMBER 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Central Bank of Barbados

OPINION

We have audited the financial statements of the Central Bank of Barbados (the "Bank"), which comprise the statement of financial position as at December 31, 2018, and the statements of income and comprehensive loss, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements are prepared in all material respects, in accordance with the Central Bank of Barbados Act, Cap 323C and the significant accounting policies stipulated in Note 2.

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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in Barbados, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation of the financial statements in accordance with the Central Bank of Barbados Act, Cap 323C and the significant accounting policies stipulated in Note 2, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

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

INDEPENDENT AUDITORS' REPORT, CONTINUED

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 financial statements.

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

- Identify and assess the risks of material misstatement of the 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 Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- In addition, we read all the financial and nonfinancial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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.



Chartered Accountants
Bridgetown, Barbados
February 28, 2019

STATEMENT OF FINANCIAL POSITION

December 31, 2018

with corresponding figures for 2017

ASSETS

	NOTES	<u>2018</u>	<u>2017</u>
		BDS\$	BDS\$
RESERVE OF EXTERNAL ASSETS:			
Balances Held Abroad	3	370,276,397	99,851,789
Foreign Notes and Coins		14,188,407	10,344,645
Foreign Securities	4	<u>558,486,272</u>	<u>297,908,430</u>
		<u>942,951,076</u>	<u>408,104,864</u>
International Monetary Fund:			
Reserve Tranche	5	36,314,469	34,621,567
Holdings of Special Drawing Rights	5	<u>34,942,348</u>	<u>81,899,548</u>
		<u>71,256,817</u>	<u>116,521,115</u>
Total Reserve of External Assets		<u>1,014,207,893</u>	<u>524,625,979</u>
LOCAL ASSETS:			
Local Securities:			
Barbados Government Treasury Bills	6	207,037,646	1,334,893,769
Barbados Government Debentures	6	<u>417,936,271</u>	<u>597,464,000</u>
		<u>624,973,917</u>	<u>1,932,357,769</u>
Advances:			
Government	7	81,860,832	285,350,000
Property, Plant and Equipment (Net)	8	107,855,934	108,006,838
Other Assets	9	<u>43,173,887</u>	<u>84,575,408</u>
Total Local Assets		<u>857,864,570</u>	<u>2,410,290,015</u>
		<u>1,872,072,463</u>	<u>2,934,915,994</u>

See accompanying notes to accounts.

STATEMENT OF FINANCIAL POSITION (continued)

December 31, 2018

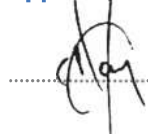
with corresponding figures for 2017

LIABILITIES, CAPITAL AND RESERVES

	NOTES	<u>2018</u>	<u>2017</u>
		BDS\$	BDS\$
LIABILITIES:			
Notes and Coins in Circulation	10	783,692,389	749,941,715
Deposits:			
Government		389,369,723	56,414,585
Banks		1,846,890,983	1,625,962,132
Financial Institutions		2,785,015	2,078,628
Other		59,660,821	37,755,074
	11	<u>2,298,706,542</u>	<u>1,722,210,419</u>
Other Liabilities:			
Allocation of Special Drawing Rights	12	186,188,758	177,509,043
Loan – International Monetary Fund	12	101,230,676	-
Loan Facility	13	-	100,000,000
Other	14	145,060,940	149,254,817
		<u>432,480,374</u>	<u>426,763,860</u>
		<u>3,514,879,305</u>	<u>2,898,915,994</u>
Total Liabilities			
Other Funds	15	<u>500,000</u>	<u>500,000</u>
CAPITAL AND RESERVES (DEFICIT):			
Authorized Capital: <u>BDS\$5,000,000</u>			
Paid up Capital: Government of Barbados	16	2,000,000	2,000,000
Contributed Surplus	16	8,500,000	8,500,000
Other Comprehensive Loss	16	(4,064,687)	-
General Reserve	16	25,000,000	25,000,000
Accumulated Deficit		<u>(1,674,742,155)</u>	<u>-</u>
		<u>(1,643,306,842)</u>	<u>35,500,000</u>
Net Capital and Reserves (Deficit)			
		<u>1,872,072,463</u>	<u>2,934,915,994</u>

See accompanying notes to accounts.

Approved on behalf of the Board of Directors on February 28, 2019



Governor



Financial Controller (Ag.)

STATEMENT OF INCOME AND COMPREHENSIVE LOSS

For the year ended December 31, 2018
with corresponding figures for 2017

	NOTES	2018	2017
		BDS\$	BDS\$
INCOME:			
Commissions and Fees		4,861,991	8,694,689
Discounts:			
Treasury Bills		28,931,561	38,138,655
Interest:			
Advances		6,926,584	8,798,689
Deposits		788,650	168,018
Securities		39,823,635	39,400,558
Other Income	18	1,495,479	2,988,269
Investment Impairment Recovery	4(ii)	-	70,812
Foreign Exchange (Loss) Gain		(2,872,904)	1,169,737
Gain on Disposal of Fixed Assets		-	92
Loss on Sale of Foreign Securities		(1,899,934)	(240,735)
Total Income		78,055,062	99,188,784
EXPENSES:			
Administrative Expenses		15,699,701	17,255,172
Depreciation	8	4,886,660	4,168,122
Interest		3,050,239	274,784
Minting of Coins		488,940	700,855
Printing of Notes		2,046,144	1,316,212
Retirement Benefits	19	6,402,650	1,465,736
Salaries and Allowances		27,851,473	27,095,925
Loss/Impairment of Advances – Government	7	292,849,165	-
Impairment of Other Assets	9	66,879,460	-
Loss/Impairment of Government Securities	6	1,247,372,595	-
Operating Expenses		1,667,527,027	52,276,806
Net (Loss) Income		(1,589,471,965)	46,911,978
Other Comprehensive Loss:			
Losses on Securities at Fair Value through Other Comprehensive Income		(832,301)	-
Total (Loss) Income and Comprehensive (Loss) Income		(1,590,304,266)	46,911,978

See accompanying notes to accounts.

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2018
with corresponding figures for 2017

	Paid up Capital	Contributed Surplus	Comprehensive Loss	Other	Accumulated Deficit	General Reserve	Total
	BDS\$	BDS\$	BDS\$	BDS\$	BDS\$	BDS\$	BDS\$
Balance brought forward – January 1, 2017	2,000,000	-	-	-	-	16,000,000	18,000,000
Comprehensive income	-	-	-	-	46,911,978	-	46,911,978
Redemption of security transferred under Sec 7(4)	-	-	-	-	(796,867)	-	(796,867)
Transfer to Frank Collymore Hall Literary Endowment Fund	-	-	-	-	(1,000,000)	-	(1,000,000)
Transfer to the Consolidated Fund	-	-	-	-	(36,115,111)	-	(36,115,111)
Transfer to General Reserve	-	-	-	-	(9,000,000)	9,000,000	-
Increase in contributed surplus – Note 16	-	8,500,000	-	-	-	-	8,500,000
Balance carried forward – December 31, 2017, as originally stated	2,000,000	8,500,000	-	-	-	25,000,000	35,500,000
Impact of IFRS 9 – Note 2(b)	-	-	(3,232,386)	-	(85,270,190)	-	(88,502,576)
Balance brought forward – January 1, 2018 as restated	2,000,000	8,500,000	(3,232,386)	-	(85,270,190)	25,000,000	(53,002,576)
Comprehensive loss	-	-	(832,301)	-	(1,589,471,965)	-	(1,590,304,266)
Balance carried forward – December 31, 2018	2,000,000	8,500,000	(4,064,687)	-	(1,674,742,155)	25,000,000	(1,643,306,842)

Note: The appropriation of profit in 2017 has been made in accordance with Section 9 of the Central Bank of Barbados Act, Cap. 323C.

STATEMENT OF CASH FLOWS

For the year ended December 31, 2018
with corresponding figures for 2017

NOTES	<u>2018</u>	<u>2017</u>
	BDS\$	BDS\$
Cash flows from operating activities		
Net (loss) income	(1,589,471,965)	46,911,978
Adjustments for:		
Depreciation	4,886,660	4,168,122
Gain on disposal of fixed assets	-	(92)
Impairment of advances - Government	292,849,165	-
Impairment of Government securities	1,247,372,595	-
Impairment of other assets	66,879,460	-
Amortisation of premium	223,548	-
Investment impairment recovery	-	(70,812)
Operating profit before working capital changes	<u>22,739,463</u>	<u>51,009,196</u>
Increase in other assets	(31,595,605)	(1,925,024)
Net (increase) decrease in foreign securities	(260,577,842)	89,226,663
(Increase) decrease in reserve tranche	(1,692,902)	1,169,307
Decrease in holdings of Special Drawing Rights	46,957,200	59,852,031
Net increase in local securities	(7,989,499)	(159,083,095)
Net increase in Government advances	(104,800,000)	(20,920,000)
Increase (decrease) in deposits	576,496,123	(59,413,340)
(Decrease) increase in other liabilities	<u>(4,193,877)</u>	<u>17,370,806</u>
Net cash from (used in) operating activities	<u>235,343,061</u>	<u>(22,713,456)</u>
Cash flows used in investing activities		
Purchase of fixed assets	(4,735,756)	(7,507,406)
Proceeds from sale of fixed assets	-	96
Net cash used in investing activities	<u>(4,735,756)</u>	<u>(7,507,310)</u>
Cash flows from financing activities		
Increase (decrease) in allocation of Special Drawing Rights	8,679,715	(5,995,180)
Increase in notes and coins in circulation	33,750,674	19,615,213
(Decrease) increase in loan facility	(100,000,000)	100,000,000
Proceeds from IMF loan	101,230,676	-
Transfer to Frank Collymore Endowment Fund	-	(1,000,000)
Repayment of security transferred under Sec 7(4)	-	(796,867)
Transfer to Consolidated Fund	-	(36,115,111)
Net cash from financing activities	<u>43,661,065</u>	<u>75,708,055</u>

STATEMENT OF CASH FLOWS (continued)

For the year ended December 31, 2018
with corresponding figures for 2017

NOTES	<u>2018</u>	<u>2017</u>
	BDS\$	BDS\$
Net increase in cash and cash equivalents	274,268,370	45,487,289
Cash and cash equivalents at beginning of year	<u>110,196,434</u>	<u>64,709,145</u>
Cash and cash equivalents at end of year	<u><u>384,464,804</u></u>	<u><u>110,196,434</u></u>
Cash and cash equivalents comprise:		
Current Account Balances	3 370,276,397	99,851,789
Foreign Notes and Coins	<u>14,188,407</u>	<u>10,344,645</u>
	<u><u>384,464,804</u></u>	<u><u>110,196,434</u></u>

See accompanying notes to accounts.

NOTES TO FINANCIAL STATEMENTS

December 31, 2018

1. CORPORATE INFORMATION

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

The purpose of the Bank as set out in the CBB Act is to regulate the issue, supply, availability and international exchange of money, to promote monetary stability, to promote a sound financial structure, to foster the development of money and capital markets in Barbados; and to foster credit exchange conditions conducive to the orderly and sustained economic development of Barbados.

The Bank has recorded an accumulated deficit of \$1,674,742,155 as at December 31, 2018. This deficit was caused by significant non-recurring costs of \$1,692,371,410 which included the first time implementation of IFRS 9 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 its statutory purpose and management has reasonable expectations that the Bank will be profitable and generate cash flow to meet its operating requirements over the twelve months from the reporting date.

Management has concluded that the financial statements fairly present the Bank's financial position, financial performance and cash flow, and that it has complied with adopted 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 expected to adversely affect the Bank. The Bank may only be wound-up by an Act of Parliament and the sole shareholder has pledged continued support to the Bank including the development of a recapitalization plan by June 2020 under the conditionality of an International Monetary Fund – Enhanced Fund Facility (IMF-EFF).

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES**a) Basis of Preparation**

Under the CBB Act, the Bank in preparing its financial statements is subject to the requirements of the Act. The financial statements comprise the Statements of Financial Position, Income and Comprehensive Loss, Changes in Equity, Cash Flows and related notes.

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

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

- Non-consolidation of entities owned and or managed by the Bank
- Employee accumulated leave
- Numismatic coins
- Financial instruments – disclosures, measurement and presentation

The 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 with the resulting unrealized gains or losses carried forward in the Statement of Financial Position.

b) New and Amended Standards and Interpretations

The Bank has adopted IFRS 9, Financial Instruments, which is effective for annual periods beginning on or after January 1, 2018. This standard was applied on a retrospective basis, with certain exceptions. As permitted, the Bank did not restate its prior period comparative financial statements. Differences in the carrying amounts of financial instruments resulting from the adoption of IFRS 9 are recognized in the opening balance of accumulated deficit at January 1, 2018 and accumulated other comprehensive income (AOCI) as if the Bank had always followed the new requirements. In addition, a number of other new standards are also effective from January 1, 2018 but they do not have a material effect on the financial statements.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued

b) New and Amended Standards and Interpretations, continued

The nature and the impact of the new standards and amendments are described below:

IFRS 9, Financial Instruments

IFRS 9 replaces IAS 39 as at January 1, 2018. As previously stated the Bank has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognized directly in accumulated deficit as of January 1, 2018 and are disclosed below:

(i) Changes to Classification and Measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics. The IAS 39 measurement categories of financial assets at fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortized cost have been replaced by:

- Debt instruments at amortized cost
- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition
- Equity instruments at FVOCI, with no recycling of gains or losses to profit or loss on derecognition
- Financial assets at FVPL

The accounting for financial liabilities remains largely the same as it was under IAS 39. The Bank does not transact in derivative financial instruments.

The Bank's classification of its financial assets and liabilities is explained in Notes 2(c,d). The quantitative impact of applying IFRS 9 as at January 1, 2018 is disclosed below:

Details of the Bank's impairment method are disclosed in Note 2.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued**b) New and Amended Standards and Interpretations, continued****IFRS 9, Financial Instruments, continued***(ii) Changes to the Impairment Calculation*

The adoption of IFRS 9 has changed the Bank's accounting for loss impairment by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination in which case a lifetime ECL is determined.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued

b) New and Amended Standards and Interpretations, continued

IFRS 9, Financial Instruments, continued

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 on January 1, 2018:

	IAS 39 carrying amount as at December 31, 2017 \$	Reclassification \$	Remeasurement \$	IFRS carrying amount as at January 1, 2018 \$
Financial Assets				
Balances Held Abroad	99,851,789	-	-	99,851,789
IMF Assets	116,521,115	-	-	116,521,115
Foreign Notes and Coins	10,344,645	-	-	10,344,645
Foreign Securities - AFS:				
Opening balance	297,908,430	-	-	-
To debt securities measured at FVOCI	-	(297,595,083)	-	-
To equity securities measured at FVOCI	-	(313,347)	-	-
Closing balance	-	-	-	-
Debt securities measured at FVOCI:				
Opening balance	-	-	-	-
From Foreign Securities - AFS	-	297,595,083	-	-
Closing balance	-	-	-	297,595,083
Equity Securities measured at FVOCI:				
Opening balance	-	-	-	-
From Foreign Securities - AFS	-	313,347	-	-
Closing balance	-	-	-	313,347
	297,908,430	-	-	297,908,430

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued

b) New and Amended Standards and Interpretations, continued

IFRS 9, Financial Instruments, continued

The following table reconciles the carrying amounts of financial liabilities under IAS 39 to the carrying amounts under IFRS 9 on January 1, 2018:

	IAS 39 carrying amount as at December 31, 2017 \$	Reclassification \$	Remeasurement \$	IFRS carrying amount as at January 1, 2018 \$
Amortized Cost				
Local Securities:				
Opening balance: Held-to-Maturity	1,932,357,769	-	-	-
Remeasurement	-	-	(67,777,208)	-
Carried forward: Amortized Cost	-	-	-	1,864,580,561
Advances:				
Opening balance: Advances	285,350,000	-	-	-
Remeasurement	-	-	(15,440,003)	-
Carried forward: Amortized Cost	-	-	-	269,909,997
Other Assets:				
Opening balance	84,575,408	-	-	-
Remeasurement	-	-	(2,052,979)	-
Transfer to other comprehensive loss	-	(3,232,386)	-	-
Carried forward: Amortised Cost	-	-	-	79,290,043
Total Financial Assets	2,302,283,177	(3,232,386)	(85,270,190)	2,213,780,601
Financial Liabilities:				
Notes and Coins in Circulation	749,941,715	-	-	749,941,715
Deposits	1,722,210,419	-	-	1,722,210,419
Other Liabilities	426,763,860	-	-	426,763,860
Other Funds	500,000	-	-	500,000
	2,899,415,994	-	-	2,899,415,994

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued**b) New and Amended Standards and Interpretations, continued****IFRS 9, Financial Instruments**

The following table summarizes the impact of transition to IFRS 9 on the opening balance of the accumulated deficit:

	\$
Closing balance under IAS 39 – December 31, 2017	-
Recognition of expected credit losses under IFRS 9	<u>(85,270,190)</u>
Opening balance under IFRS 9 – January 1, 2018	<u>(85,270,190)</u>

The following table summarizes the impact of transition to IFRS 9 on the impairment of advances and securities in the Statement of Financial Position:

	\$
Closing balance under IAS 39 – December 31, 2017	-
Remeasurement of local securities at amortised cost	67,777,208
Remeasurement of other assets at amortised cost	2,052,979
Remeasurement of advances at amortised cost	<u>15,440,003</u>
Opening balance under IFRS 9 – January 1, 2018	<u>85,270,190</u>

The Bank also transferred \$3,232,386 from other assets to other comprehensive income arising from its transition to IFRS. This amount represents the unrealized loss on revaluation of foreign securities.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued**c) 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 way 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 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.

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.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued

c) Financial Instruments: Initial Recognition, continued

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
- FVOCI
- FVPL

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

Before January 1, 2018, the Bank classified its financial assets as loans and receivables, FVPL, available-for-sale or held-to-maturity.

d) Financial Assets and Liabilities

Balances Held Abroad, Advances and Financial Investments at Amortised Cost

Before January 1, 2018, balances held abroad and advances, included non-derivative financial assets with fixed or determinable payments that were not quoted in an active market, other than those:

- That the Bank intended to sell immediately or in the near term.
- That the Bank, upon initial recognition, designated as at FVPL or as available-for-sale.
- For which the Bank may not recover substantially all of its initial investment, other than because of credit deterioration, which were designated as available-for-sale.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued**d) Financial Assets and Liabilities, continued**

From January 1, 2018, 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.

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.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued

d) Financial Assets and Liabilities, continued

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.

e) Debt Instruments at FVOCI (Policy applicable from January 1, 2018)

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.

These instruments largely comprise assets that had previously been classified as financial investments available for- sale under IAS 39.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued**e) Debt Instruments at FVOCI (Policy applicable from January 1, 2018), continued**

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in 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.

f) Equity Instruments at Fair Value through Other Comprehensive Income (FVOCI) (Policy applicable from January 1, 2018)

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.

g) 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.

h) Financial Assets and Financial Liabilities at Fair Value through Profit or Loss (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.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued

h) Financial Assets and Financial Liabilities at Fair Value through Profit or Loss (FVPL), continued

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 (and assets until January 1, 2018 under IAS 39) are part of a group of financial liabilities (or financial assets, or both under IAS 39), which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or;
- The liabilities (and assets until January 1, 2018 under IAS 39) 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 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.

i) Financial Assets Held-for-Trading or Financial Liabilities (Policy applicable before January 1, 2018)

The Bank classifies financial assets or financial liabilities as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. Held-for-trading assets and liabilities are recorded and measured in the statement of financial position at fair value. Changes in fair value are recognised in net trading income. Interest and dividend income or expense is recorded in net trading income according to the terms of the contract, or when the right to payment has been established.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued**j) Financial Assets (Policy applicable before January 1, 2018)**

Local securities, treasury bills and unquoted securities are valued at amortized cost.

Other securities are valued at market and the resulting gains and/or losses on revaluation are deferred pending realization and are included in other funds and/or other assets.

k) Reclassification of Financial Assets and Liabilities

From January 1, 2018, the Bank does not reclassify its financial assets subsequent to their initial recognition.

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 FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued

l) 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.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued**l) Derecognition of Financial Assets and Liabilities, continued****Financial Assets, continued**

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.

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 profit or loss.

m) Impairment of Financial Assets (Policy applicable from January 1, 2018)*Overview of the ECL principles*

The adoption of IFRS 9 has fundamentally changed the Bank's loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. From January 1, 2018, the Bank has been recording the allowance for ECL for all loans and other debt financial assets not held at FVPL, in this section all referred to as 'financial instruments'. 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).

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued

m) Impairment of Financial Assets (Policy applicable from January 1, 2018), continued

Overview of the ECL principles, continued

The 12mECL is the portion of LTECLs that represent 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.

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.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued**m) Impairment of Financial Assets (Policy applicable from January 1, 2018), continued***Overview of the ECL principles, continued*

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 facility 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.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued

m) Impairment of Financial Assets (Policy applicable from January 1, 2018), continued

The Calculation of ECLs, continued

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 represent 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.
- 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.

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.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued**m) Impairment of Financial Assets (Policy applicable from January 1, 2018), continued****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, such as:

- 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 FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued

n) Impairment of Financial Assets (Policy applicable before January 1, 2018)

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss (for securities carried at amortized cost) is calculated as the difference between the assets' carrying amount and the value of expected future cash flows discounted at the financial instruments' original effective interest rate. Impairment losses are recognized in the Statement of Income and Comprehensive Income.

o) 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.

p) 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 all financial instruments measured at amortized cost and other interest-bearing financial assets interest income is recorded using the effective interest rate (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.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued**p) Revenue Recognition, continued***Commission, Fees and Other Income*

Commission, fees and other income are accounted for on an accrual basis.

Dividends

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

q) Foreign Currencies

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

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).

r) 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.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued

r) Property, Plant and Equipment, continued

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 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	3%
Furniture and equipment	10%- 25%
Motor vehicles	20%

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.

s) Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the 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.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued**t) Balances Held Abroad**

Balances held abroad in the statement of financial position comprise cash at banks and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

u) 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 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.

v) 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. 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. The Bank does not recognize the asset or liability in the statement of financial position in respect of defined benefit pension plans. 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 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, which is not recognized, 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.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued

w) Significant Accounting Judgements and Estimates

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

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.

Fair Value of Financial Instruments

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimates of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, counterparty credit, liquidity spread and limitations in the model.

Impairment Losses on Financial Assets

The measurement of impairment losses both under IFRS 9 and IAS 39 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.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued**w) Significant Accounting Judgements and Estimates, continued***Impairment Losses on Financial Assets, continued*

The Bank's Expected Credit Loss (ECL) calculations are outputs of complex 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 probability of default (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 Lifetime ECL (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, Exposure at Default (EADs) and Loss Given Default (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.

x) International Monetary Fund (IMF) Related Balances

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

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

2. SIGNIFICANT ACCOUNTING POLICIES, continued**x) International Monetary Fund (IMF) Related Balances, continued**

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 Statement of Income and Comprehensive Loss.

y) 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 Statement of Financial Position.

z) Trust and Custodial Activities

Amounts administered by the Bank under custodial and administration arrangements are not included in these financial statements, as they do not form part of elements of financial statements of the Bank.

3. BALANCES HELD ABROAD

	<u>2018</u>	<u>2017</u>
	\$	\$
Current accounts and short-term deposits with foreign banks	<u>370,276,397</u>	<u>99,851,789</u>

Balances held abroad relate to current accounts and deposits with foreign banks which earn interest at rates varying between 2.12% and 2.92% (2017: 0.90% and 1.46%) and all mature within 90 days of deposit.

Included in balances held abroad is \$2,582,940 (2017: \$1,017,394) related to accrued income on foreign securities.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

4. FOREIGN SECURITIES

Foreign securities comprise:

	2018		2017	
	Amortized Cost/Original Cost \$	Fair Value \$	Amortized Cost/Original Cost \$	Fair Value \$
<i>Debt securities at fair value:</i>				
Bonds/Debentures	562,265,108	558,172,925	300,854,961	297,595,083
<i>Equity securities at fair value:</i>				
Equities	285,851	313,347	285,851	313,347
	562,550,959	558,486,272	301,140,812	297,908,430

- (i) The net unrealized loss of \$3,232,386 arose on the revaluation of securities in 2017 and is included in Other Assets at Note 9. On January 1, 2018, the Bank reclassified this amount to Other Comprehensive Loss in accordance with IFRS 9.
- (ii) Investment impairment recovery on the Government of Grenada bond is \$Nil (2017: \$70,812) and was included in the Statement of Income and Comprehensive Loss.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

5. IMF ASSETS

	<u>2018</u>	<u>2017</u>
	\$	\$
Reserve tranche	36,314,469	34,621,567
Holdings of Special Drawing Rights	34,942,348	81,899,548
	<hr/>	<hr/>
Total IMF assets	<u>71,256,817</u>	<u>116,521,115</u>

The Reserve Tranche and Holdings of Special Drawing Rights pertain to the value of SDRs at December 31, 2018.

The balances held at December 31, 2018 amounted to SDR 12,555,546 (2017: SDR 12,555,546) and SDR 12,081,142 (2017: SDR 29,700,953), respectively. The rate of translation of SDRs to Barbados dollars at December 31, 2018 is BDS\$1 = SDR 0.345745 (2017: BDS\$1 = SDR 0.362651).

Holding of Special Drawing Rights

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. The amount shown above represents the total holding of the Bank as at the respective Statement of Financial Position dates.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

6. LOCAL SECURITIES

Amounts comprise debt securities at amortised cost:

	2018		2017	
	Nominal Value \$	Amortized Cost \$	Nominal Value \$	Amortized Cost \$
Barbados Government Treasury Bills	209,644,190	207,037,646	1,344,879,500	1,334,893,769
Barbados Government Debentures	414,440,000	417,936,271	597,464,000	597,464,000
	624,084,190	624,973,917	1,942,343,500	1,932,357,769

On June 1, 2018, the Government of Barbados (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 finalized 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 \$1,524,574,268 and (ii) debentures measured at amortised cost with a value of \$415,773,000 and recognised (i) Treasury Bills with a nominal value of \$209,644,190 measured at originated credit impaired costs /fair value of \$207,220,000 and (ii) debentures with a nominal value of \$414,440,000 measured at original credit impaired cost/fair value of \$424,344,067.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

6. LOCAL SECURITIES, continued

On initial recognition of the debentures, it was determined that the fair value approximated \$424,344,067. As a result, the Bank recognised an increase in value of \$9,904,067 which has been included in the impairment of securities account in the Statement of Income and Comprehensive Loss.

There was no allowance for impairment for debt securities at amortised cost under IAS 39. At January 1, 2018, the Bank recorded an adjustment on initial application of IFRS 9 of \$67,777,208. Additional impairment of \$6,366,602 was recorded during the year.

The average yield on treasury bills during the year was 3.28% (2017:3.30%). The average yield on debentures and treasury notes was 6.63% (2017:5.69%).

The Bank has recorded a total loss/impairment of \$1,315,149,803 on government securities. Included in comprehensive loss is \$1,247,372,595 which represents the loss on derecognition of government securities related to the debt exchange of \$1,241,005,993 and the additional impairment recorded during the year of \$6,366,602. An impairment amount of \$67,777,208 on these securities is included in the opening IFRS 9 adjustment in equity.

7. ADVANCES TO GOVERNMENT

	<u>2018</u>	<u>2017</u>
	\$	\$
Advances to Government	<u>81,860,832</u>	<u>285,350,000</u>

Under the CBB Act, the Bank may make direct provisional advances to the Government of Barbados to finance expenditure authorized to be incurred out of the Consolidated Fund, provided that the total outstanding at any time shall not exceed an amount determined under Financial Management and Audit (Amendment) Act. The balance outstanding represents such advances made by the Bank and are within the authorized statutory limit. The advance earned interest at rates varying between 2.65% and 3.50% (2017: 3.18% and 3.50%).

At January 1, 2018, the Bank recorded an impairment adjustment on initial application of IFRS 9 of \$15,440,003. During the year, the Bank derecognized Advances to Government amounting to \$308,000,000 as provided under the Financial Management and Audit (Amendment) Act.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

7. ADVANCES TO GOVERNMENT, continued

Included in comprehensive loss is \$292,849,165 which represents the loss on derecognition of \$292,559,997 and additional impairment recorded during the year of \$289,168.

8. PROPERTY, PLANT AND EQUIPMENT

a) These amounts comprise:

	Freehold Land and Buildings \$	Furniture, Plant and Equipment \$	Motor Vehicles \$	Total \$
Cost:				
January 1, 2017	110,392,102	68,609,967	530,711	179,532,780
Additions	2,741,367	4,642,664	123,375	7,507,406
Contributed property	8,500,000	-	-	8,500,000
Disposal/write-offs	-	(2,623)	-	(2,623)
December 31, 2017	121,633,469	73,250,008	654,086	195,537,563
Additions	1,573,898	3,051,449	110,409	4,735,756
Disposal/write-offs	-	-	-	-
December 31, 2018	123,207,367	76,301,457	764,495	200,273,319
Accumulated Depreciation:				
January 1, 2017	30,796,707	52,040,934	527,581	83,365,222
Charge for the year	1,706,330	2,444,693	17,099	4,168,122
Eliminated on disposals	-	(2,619)	-	(2,619)
December 31, 2017	32,503,037	54,483,008	544,680	87,530,725
Charge for the year	1,867,000	2,994,985	24,675	4,886,660
Eliminated on disposals	-	-	-	-
December 31, 2018	34,370,037	57,477,993	569,355	92,417,385
Net Book Values:				
December 31, 2018	88,837,330	18,823,464	195,140	107,855,934
December 31, 2017	89,130,432	18,767,000	109,406	108,006,838
December 31, 2016	79,595,395	16,569,033	3,130	96,167,558

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

9. OTHER ASSETS

Other assets include:

	<u>2018</u>	<u>2017</u>
	\$	\$
Accrued income (a)	9,158,486	11,992,378
Cheques in process of collection	6,795,450	14,166,106
CRL Limited (b)	-	9,000,000
New Life Insurance Company Limited (c)	-	20,569,459
Prepayments	7,557,826	4,600,309
Staff advances (d)	17,897,213	18,815,784
Unrealised loss on revaluation of investments (Note 4)	-	3,232,382
Sundry balances	1,764,912	2,198,990
	<u>43,173,887</u>	<u>84,575,408</u>

- (a) Accrued income totaling \$14,206,192 was written off as part of the public debt restructuring exercise further described at Note 6.
- (b) The CRL Limited loan, which bears interest at a rate of 6% per annum was originally due from the Barbados Development Bank. During 1998, the facility was transferred to CRL. The Government has issued a letter of comfort in respect of this and has undertaken to repay the debt on behalf of CRL Limited. At December 31, 2018, the cumulative interest not recognized was \$7,561,973 (2017: \$7,021,973). At January 1, 2018, an impairment adjustment for IFRS 9 in the amount of \$842,507 was recorded. The security of this letter of comfort was lifted at December 31, 2018 and an impairment adjustment of \$8,157,493 was also recorded.
- (c) The advance to New Life Insurance Company Inc. earns interest at the average Treasury Bill rate which approximated 3.20% (2017: 3.32%) during the year. The loan is due for repayment date of March 31, 2019 with provision for annual rollover on approval of the Board. The advance is fully guaranteed by the Government of Barbados. At January 1, 2018 an adjustment for IFRS 9 impairment in the amount of \$1,210,472 was recorded. At December 31, 2018 an impairment adjustment of \$44,515,775 was also recorded.
- (d) Staff advances represent mortgages and other loans provided to employees of the Bank. Staff advances earn interest at rates of 2%, 4% or 6%.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

9. OTHER ASSETS, continued

As a result of the adjustments above an amount totaling \$66,879,460 has been recorded in comprehensive loss.

At December 31 the following categories of advances exist:

	<u>2018</u>	<u>2017</u>
	\$	\$
Mortgages	12,663,103	13,507,349
Motor vehicles	1,829,483	1,753,148
Education	310,959	378,375
Other	3,213,127	3,296,371
Less: Provision for impairment	(119,459)	(119,459)
	<u>17,897,213</u>	<u>18,815,784</u>

10. NOTES AND COINS IN CIRCULATION

	<u>2018</u>	<u>2017</u>
	\$	\$
Notes	720,344,832	687,585,794
Coins	63,347,557	62,355,921
	<u>783,692,389</u>	<u>749,941,715</u>

In accordance with Section 21 of the CBB 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, 2018, the nominal value of numismatic coins sold, totaled approximately \$10.7 million (2017: \$10.4 million) and is excluded from 'Notes and Coins in Circulation' (See Note 2 (y)).

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

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

	<u>2018</u>	<u>2017</u>
	\$	\$
Deposits	2,298,706,542	1,722,210,419

Included in the amount above are deposits in the amount of \$37,589,617 (2017: \$44,247,130) 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% (2017: 0.10%).

12. IMF ALLOCATION OF SPECIAL DRAWING RIGHTS AND LOAN

	<u>2018</u>	<u>2017</u>
	\$	\$
Allocation of Special Drawing Rights	186,188,758	177,509,043

This amount represents the liability to the International Monetary Fund in respect of SDRs 64,373,832 (2017: 64,373,832) 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>2018</u>	<u>2017</u>
	\$	\$
IMF Loan (Extended Fund Facility)	101,230,676	-

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

12. IMF ALLOCATION OF SPECIAL DRAWING RIGHTS AND LOAN, continued

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 \$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 \$101.2 million) was disbursed on October 1, 2018. The remaining amounts are expected to be received in seven tranches over a period of three and a half years with the next tranche expected in May 2019 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 2.103%.

13. LOAN FACILITY

	<u>2018</u>	<u>2017</u>
	\$	\$
Loan Facility	-	100,000,000

In November 2017, the Bank entered into a margin loan facility with Fidelity Investments in the amount of \$100 million. The facility bore interest at a rate equivalent to the FedFunds rate plus 40 basis points. The effective rate varied between 1.90% and 2.65% (2017: 1.65% and 1.90%). During 2018, the loan facility was fully repaid.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

14. OTHER

This amount comprises:

	<u>2018</u>	<u>2017</u>
	\$	\$
Accounts Payable	3,181,013	4,033,214
Contribution Payable – UWI Fund re Chair in Banking	1,161,169	1,161,169
Debenture Interest Payment Account	67,536	(24,013)
Deposit Insurance Company Accounts	3,637,593	65,056
Domestic Clearing	49,429,226	32,990,782
Dormant Accounts(i)	24,270,518	15,604,888
Frank Collymore Literary Endowment Fund	1,000,000	1,000,000
Housing Credit Fund General Account (iii)	15,584,582	6,506,250
Industrial Credit Fund (iii)	24,407,238	22,272,550
Redemption of Debentures Account	4,925,620	39,667,620
Sinking Fund Contribution Account(ii)	10,179,228	21,761,195
Staff Pension Fund (iii)	4,706,235	95,093
Staff Welfare Fund (iii)	6,066	6,066
Sundry Balances	2,504,916	4,114,947
	<u>145,060,940</u>	<u>149,254,817</u>

(i) Dormant accounts comprise:

	<u>2018</u>	<u>2017</u>
	\$	\$
Banks – local and international (a)	13,225,039	5,194,253
Financial Services Commission (b)	11,045,479	10,410,635
	<u>24,270,518</u>	<u>15,604,888</u>

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

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

14. OTHER, continued

- (b) In accordance with the Financial Services Commission Act, this amount represents security deposits from insurance companies and abandoned property in the form of unclaimed matured insurance policies.
- (ii) This account is set up in accordance with the Local Loans Act CAP 98, the External Loans Act CAP 94D and the General Loan and Stock Act CAP 95 and represents the uninvested funds held for the redemption of foreign debt.
- (iii) These amounts related to deposits owing to related entities are unsecured, interest free and no fixed terms of repayment.

15. OTHER FUNDS

	<u>2018</u>	<u>2017</u>
	\$	\$
Special Credit Trust	500,000	500,000

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

16. CAPITAL AND RESERVES (DEFICIT)

The Bank manages its Capital to comply with the Central Bank of Barbados Act.

The authorized capital of the Bank is \$5.0 million shares with no par value. Shares of a value of \$2,000,000 are fully paid and have been issued to the Minister of Finance, who holds them on behalf of the Government of Barbados.

General Reserve

The general reserve was accumulated out of net income and is consistent with the Section 9, 1(b) of the CBB Act.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

16. CAPITAL AND RESERVES (DEFICIT) , continued

Contributed Surplus

During 2017, the Government approved and conveyed to the Bank certain property at Church Village, Bridgetown which carried a valuation of \$8,500,000. This transaction has been recorded as an increase to Contributed Surplus.

Other Comprehensive Loss

This amount relates to the unrealized losses on securities at fair value through other comprehensive loss.

17. COMMITMENTS AND CONTINGENCIES

(a) At December 31, 2018, the Bank had guaranteed settlement of approximately \$2,667,693 (2017: \$4,323,724) under the following schemes: No claims were made on the Bank by the above funds.

	2018		2017	
	Value of Original Contract	Outstanding Guarantee	Value of Original Contract	Outstanding Guarantee
	\$	\$	\$	\$
Small Business Guarantee Fund	4,583,834	2,468,063	5,053,005	4,207,725
Trade receivables liquidity facility	200,000	199,630	116,214	115,999
	4,783,834	2,667,693	5,169,219	4,323,724

(b) Additionally, at December 31, 2018, the Bank had contracts for capital expenditure in the amount of \$2,520,198 (2017: \$5,347,000).

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

18. RELATED PARTIES

Other income includes management fees received as follows:

	<u>2018</u>	<u>2017</u>
	\$	\$
Industrial Credit Fund	310,150	264,587
Housing Credit Fund	479,826	470,545
	<u>789,976</u>	<u>735,132</u>

At December 31, 2018, the Bank owned and/or managed certain entities. The net assets and net income (loss) as disclosed in the entities' financial statements are as follows:

	<u>2018</u>		<u>2017</u>	
	Net Assets	Net Income (Loss)	Net Assets	Net Income (Loss)
	\$	\$	\$	\$
Subsidiaries:				
Export Credit Insurance Fund (100% share)	11,700,535	123,859	11,576,675	148,376
Small Business Guarantee Fund (100% share)	2,781,184	(2,807,842)	5,589,026	130,382
Associates:				
Industrial Credit Fund (14% share)	105,981,771	(51,059)	16,032,829	979,248
Managed Entities:				
Housing Credit Fund	137,840,377	1,640,711	135,006,409	1,208,839

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

18. RELATED PARTIES, continued

The Bank received a dividend from the Industrial Credit Fund totaling \$Nil (2017: \$1,550,000). This amount was included in Other Income.

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.

The Bank provides funds-management, fiscal-agent and banking services to the Government of Barbados as mandated by the CBB Act.

The Bank also provides management, investment and administrative support to the CBB 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.

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

	<u>2018</u>	<u>2017</u>
	\$	\$
Short-term employee benefits	6,188,123	5,459,916
Post-employment benefits	17,779	6,499
Directors' fees	60,000	72,000
Total compensation	<u>6,265,902</u>	<u>5,538,415</u>
	<u>2018</u>	<u>2017</u>
	\$	\$
Staff advances related to key management amount to:	<u>3,808,108</u>	<u>4,585,486</u>

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

19. RETIREMENT BENEFITS

The Bank has established a non-contributory retirement plan for the benefit of its employees. The plan is a defined benefit plan. The assets of the plan are held in separate trust administered funds. A full actuarial valuation is obtained from an independent valuer at least every three years. The most recent valuation carried out at December 31, 2018 revealed the following:

	<u>2018</u>	<u>2017</u>
	\$	\$
Fair value of plan assets	121,329,212	155,219,857
Actuarial present value of liabilities	<u>(143,529,547)</u>	<u>(145,113,826)</u>
(Deficit) Surplus	<u>(22,200,335)</u>	<u>10,106,301</u>

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

	<u>2018</u>	<u>2017</u>
Rate of return of assets	5.0% per annum	6% per annum
Rate of salary inflation and promotional increases	3.5% per annum	4% per annum
Rate of escalation of NIS ceiling	3.0% per annum	3% per annum
Rate of pension increases	0.0% per annum	2% per annum

At December 31, 2018, the actuary has recommended a funding rate of 10.98% (2017 : 11.03%) of covered payroll be used for new benefits, plus the additional special payment of \$5,021,872 per annum for the next five years to fund the solvency deficit.

20. TAXATION

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

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

21. COMPARATIVES

Certain comparative amounts have been reclassified to conform with the current year's presentation.

In 2017, Balances Held Abroad included \$31,008,717 related to current account due to foreign banks. These amounts are classified as Deposits in 2018.

22. 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 Board of Directors and the Audit Committee.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

22. FINANCIAL RISK MANAGEMENT, continued

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

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 stipulate 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).

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

22. FINANCIAL RISK MANAGEMENT, continued**Credit Risk, continued***Foreign Securities and Balances Held Abroad, continued*

The table below presents an analysis of the Bank's foreign securities by rating agency designation at December 31, 2018 and December 31, 2017, based on Moody's or equivalent:

Foreign Securities:

	<u>2018</u>	<u>2017</u>
	\$	\$
Rated (Moody's)		
AAA	472,461,079	281,812,171
AA+	69,984,700	-
AA1	1,983,028	2,001,890
BAA3 (S&P:AA)	193,256	230,158
	<u>544,622,063</u>	<u>284,044,219</u>
Unrated		
Regional Securities	<u>13,864,211</u>	<u>13,864,211</u>
Total Foreign Securities	<u><u>558,486,274</u></u>	<u><u>297,908,430</u></u>

The Bank considers foreign securities with a Moody's rating of Aaa to Baa3 as High Grade and unrated regional securities not in default as standard grade. When a security, subsequent to purchase, cease to be eligible under the Moody's rating system the Investment Manager shall divest the relevant investment on a best efforts basis as soon as possible.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

22. FINANCIAL RISK MANAGEMENT, continued**Local Securities**

These represent Government securities which are classified as purchased originated credit impaired in 2018. Management expects that this counterparty will meet its obligations.

The Bank purchases 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.

Under the Central Bank of Barbados (Amendment) Act 2018, there is 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.”

Advances to Government

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

Advances to Government are based on the statutory limit under the Financial Management and Audit (Amendment) Act 2018 which states that:

“for the purpose of meeting the current requirements of the Consolidated Fund, the Minister may borrow by means of temporary advances from any bank or banks, money to an amount not exceeding 7.5% of the net receipts of the estimated revenue of the Government for that financial year.”

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

22. FINANCIAL RISK MANAGEMENT, continued

Advances to Staff

Advances to staff are authorized under the CBB 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. Staff loans are limited to a percentage of the asset being acquired. Mortgages and bills of sale are obtained for all staff housing and motor vehicle loans respectively, which must also be insured.

Concentrations

The Bank is significantly exposed to credit risk arising from its transactions with the Government of Barbados which mainly comprise of local securities and advances. These items represent approximately 38% (2017: 76%) of total assets.

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

NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2018

22. FINANCIAL RISK MANAGEMENT, continued

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.

As at December 31, 2018, the Bank's exposure to major currencies in \$000's was as follows:

	US	GBP	CAD	Euro	BDS	SDR	Other	Total
Assets								
Balances Held Abroad	364,608	602	951	543	-	-	3,572	370,276
Foreign Notes and Coins	4,225	5,650	1,687	2,488	-	-	138	14,188
Foreign Securities	558,486	-	-	-	-	-	-	558,486
IMF Related Assets	-	-	-	-	-	71,257	-	71,257
Barbados Government T-Bills	-	-	-	-	207,038	-	-	207,038
Barbados Government Debentures	-	-	-	-	417,936	-	-	417,936
Government Advances	-	-	-	-	81,861	-	-	81,861
Other Assets	-	-	-	-	43,174	-	-	43,174
Total Assets	927,319	6,252	2,638	3,031	750,009	71,257	3,710	1,764,216
Liabilities								
Notes and Coins in Circulation	-	-	-	-	783,692	-	-	783,692
Government Deposits	-	-	-	-	389,370	-	-	389,370
Other Deposits	-	-	-	-	59,661	-	-	59,661
Allocation of Special Drawing Rights	-	-	-	-	-	186,189	-	186,189
Deposits of Banks and Financial Institutions	34,854	33	2,222	-	1,812,567	-	-	1,849,676
IMF Loan	-	-	-	-	-	101,231	-	101,231
Other Liabilities	-	-	-	-	145,061	-	-	145,061
Total Liabilities	34,854	33	2,222	-	3,190,351	287,420	-	3,514,880

NOTES TO FINANCIAL STATEMENTS (continued)
December 31, 2018

22. FINANCIAL RISK MANAGEMENT, continued

Currency Risk, continued

As at December 31, 2017, 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	93,689	295	3,077	2,791	-	-	-	99,852
Notes and Coins	5,441	2,937	994	841	-	-	132	10,345
Foreign Securities	297,908	-	-	-	-	-	-	297,908
IMF Related Assets	-	-	-	-	-	116,521	-	116,521
Barbados Government T-Bills	-	-	-	-	1,334,894	-	-	1,334,894
Barbados Government Debentures	-	-	-	-	597,464	-	-	597,464
Government Advances	-	-	-	-	285,350	-	-	285,350
Other Assets	-	-	-	-	84,575	-	-	84,575
Total Assets	397,038	3,232	4,071	3,632	2,302,283	116,521	132	2,826,909
Liabilities								
Notes and Coins in Circulation	-	-	-	-	749,942	-	-	749,942
Government Deposits	-	-	-	-	56,415	-	-	56,415
Other Deposits	-	-	-	-	37,755	-	-	37,755
Allocation of Special Drawing Rights	-	-	-	-	-	177,509	-	177,509
Deposits of Banks and Financial Institutions	38,939	35	4,791	-	1,584,276	-	-	1,628,041
Loan Facility	-	-	-	-	100,000	-	-	100,000
Other Liabilities	-	-	-	-	149,255	-	-	149,255
Total Liabilities	38,939	35	4,791	-	2,677,643	177,509	-	2,898,917

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

22. 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, 2018

	Effect on Profit of 5% Increase	Effect on Profit of 5% Decrease
Assets		
EURO	152	(152)
GBP	312	(312)
CAD	132	(132)
IMF Asset	3,564	(3,564)
Liabilities		
GBP	(2)	2
CAD	(111)	111
IMF Liability	(14,371)	14,371

Sensitivity of Profit in BDS '000s at December 31, 2017

	Effect on Profit of 5% Increase	Effect on Profit of 5% Decrease
Assets		
EURO	182	(182)
GBP	162	(162)
CAD	204	(204)
IMF Asset	5,826	(5,826)

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

22. FINANCIAL RISK MANAGEMENT, continued**Currency Risk, continued****Sensitivity of Profit in BDS '000s at December 31, 2017, continued**

	Effect on Profit of 5% Increase	Effect on Profit of 5% Decrease
Liabilities		
GBP	(2)	2
CAD	(240)	240
IMF Liability	(8,974)	8,974

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 of Barbados 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.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

22. FINANCIAL RISK MANAGEMENT, continued

Liquidity Risk , continued

	2018 (\$'000s)					Total
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	>5 years	
	\$	\$	\$	\$	\$	\$
Foreign Currency Assets						
Balances Held Abroad	370,276	-	-	-	-	370,276
Foreign Notes and Coins	14,188	-	-	-	-	14,188
Foreign Securities	313	99,608	-	363,864	94,701	558,486
IMF Related Assets	71,257	-	-	-	-	71,257
Total Foreign Currency Assets	456,034	99,608	-	363,864	94,701	1,014,207
Local Currency Assets						
Barbados Government T-Bills	-	-	207,038	-	-	207,038
Barbados Government Debentures	-	-	-	86,290	331,646	417,936
Government Advances	81,861	-	-	-	-	81,861
Other Assets	25,352	22	444	4,424	12,932	43,174
Total Local Currency Assets	107,213	22	207,482	90,714	344,578	750,009
Total Assets	563,247	99,630	207,482	454,578	439,279	1,764,216
Liabilities						
Notes and Coins in Circulation	783,692	-	-	-	-	783,692
Government Deposits	389,370	-	-	-	-	389,370
Other Deposits	59,661	-	-	-	-	59,661
Allocation of Special Drawing Rights	186,189	-	-	-	-	186,189
Deposits of Banks and Financial Institutions	1,849,676	-	-	-	-	1,849,676
IMF Loan	101,231	-	-	-	-	101,231
Other Liabilities	145,061	-	-	-	-	145,061
Other Funds	500	-	-	-	-	500
Total Liabilities	3,515,380	-	-	-	-	3,515,380

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

22. FINANCIAL RISK MANAGEMENT, continued

Liquidity Risk , continued

	2017 (\$'000s)					Total
	On demand	Less than 3 months	3 to 12 months	1 to 5 years	>5 years	
	\$	\$	\$	\$	\$	\$
Foreign Currency Assets						
Balances Held Abroad	99,852	-	-	-	-	99,852
Foreign Notes and Coins	10,345	-	-	-	-	10,345
Foreign Securities	313	-	-	247,743	49,852	297,908
IMF Related Assets	116,521	-	-	-	-	116,521
Total Foreign Currency Assets	227,031	-	-	247,743	49,852	524,626
Local Currency Assets						
Barbados Government T-Bills	-	1,334,894	-	-	-	1,334,894
Barbados Government Debentures	-	-	181,691	142,459	273,314	597,464
Government Advances	285,350	-	-	-	-	285,350
Other Assets	66,130	119	693	4,802	12,831	84,575
Total Local Currency Assets	351,480	1,335,013	182,384	147,261	286,145	2,302,283
Total Assets	578,511	1,335,013	182,384	395,004	335,997	2,826,909
Liabilities						
Notes and Coins in Circulation	749,942	-	-	-	-	749,942
Government Deposits	56,415	-	-	-	-	56,415
Other Deposits	37,755	-	-	-	-	37,755
Allocation of Special Drawing Rights	177,509	-	-	-	-	177,509
Deposits of Banks and Financial Institutions	1,628,041	-	-	-	-	1,628,041
Loan Facility	100,000	-	-	-	-	100,000
Other Liabilities	149,255	-	-	-	-	149,255
Other Funds	500	-	-	-	-	500
Total Liabilities	2,899,417	-	-	-	-	2,899,417

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

22. FINANCIAL RISK MANAGEMENT, continued**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.

A 50 basis point change in interest rates would cause an inverse movement in income of \$1.11 million (2017: \$1.65 million) and other assets/liabilities by \$6.14 million (2017: \$3.49 million).

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.

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

23. 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.

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, 2018 (\$000's):

	(Level 1)	(Level 2)	(Level 3)
Debt Securities at FVOCI	558,173	-	-
Equity Securities at FVOCI	-	-	313
	558,173	-	313

Fair value measurement hierarchy for assets and liabilities as at December 31, 2017 (\$000's):

	(Level 1)	(Level 2)	(Level 3)
Debt Securities at FVOCI	297,595	-	-
Equity Securities at FVOCI	-	-	313
	297,595	-	313

NOTES TO FINANCIAL STATEMENTS (continued)

December 31, 2018

23. FAIR VALUE MEASUREMENT, continued

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:

Financial assets and liabilities with carrying values that approximate fair value

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.

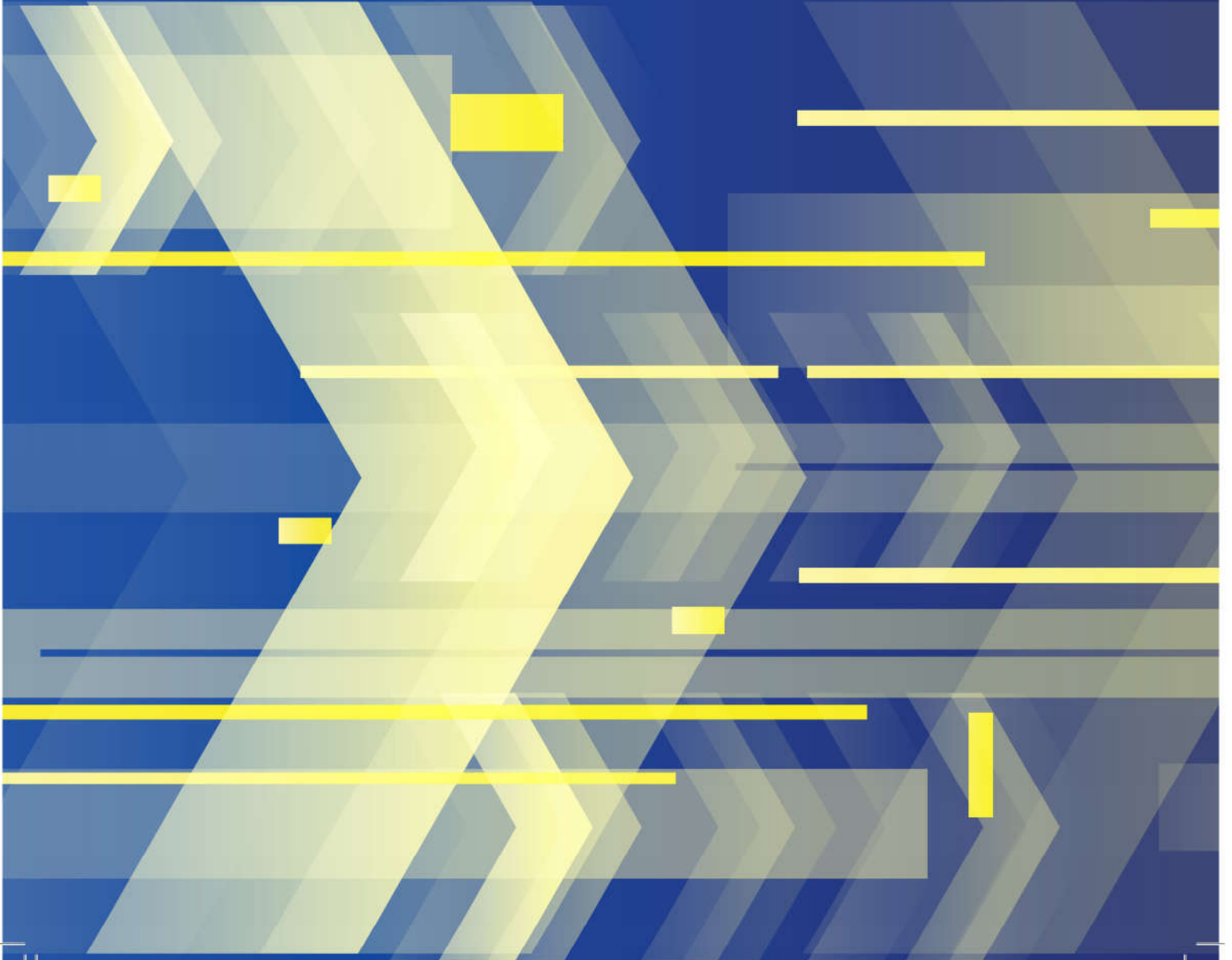
For all other financial instruments, it is assumed that the carrying amounts also approximate to their fair value.



CENTRAL BANK
OF BARBADOS

2018 ANNUAL REPORT

TOM ADAMS FINANCIAL CENTRE
CHURCH VILLAGE,
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Clarke-Worrell Patricia

From: Headley Nancy
Sent: Thursday, July 11, 2019 2:13 PM
To: Gibson Annette; Alleyne-Headley Betty; Clarke-Worrell Patricia
Subject: Fwd: 2018 Annual Report and Financial Statements of the Central Bank

AO1(A),

Referred for continuation of action please.

Nancy Headley
PSF

From: Hon. Ryan Straughn, MP
Sent: Thursday 11 July, 1:49 pm
Subject: Re: 2018 Annual Report and Financial Statements of the Central Bank
To: Headley Nancy
Cc: Nancy Headley

PSF

Draft cabinet paper approved.

Hon. Ryan Straughn M.P.
Minister in the Ministry of Finance
Ministry of Finance, Economic Affairs and Investment
Email: Ryan.Straughn@barbados.gov.bb

On Thu, Jul 11, 2019 at 12:12 PM -0400, "Headley Nancy" <headleyn@GOB.BB> wrote:

MiF, The attached Draft Cabinet Paper is submitted for approval please. Nancy Headley PSF _____ From: Clarke-Worrell Patricia Sent: Thursday, July 11, 2019 11:58 AM To: Headley Nancy Subject: 2018 Annual Report and Financial Statements of the Central Bank Good Afternoon Ps Please see the attached amended Cabinet Paper. Kind Regards P. Clarke-Worrell