

Financial Statements of

ENHANCED CREDIT GUARANTEE FUND

December 31, 2019



Enhanced Credit Guarantee Fund

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KPMG

Hastings
Christ Church, BB 15154
Barbados West Indies
Telephone: (246) 434-3900
Fax: (246) 427-7123

P. O. Box 690C
Bridgetown, Barbados

INDEPENDENT AUDITORS' REPORT

To the Governor of the Central Bank of Barbados

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Enhanced Credit Guarantee Fund (the "Fund"), which comprise the statement of financial position as at December 31, 2019, the statements of profit or loss and other comprehensive income, changes in general fund 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 present fairly, in all material respects, the financial position of the Fund as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 Fund 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.



INDEPENDENT AUDITORS' REPORT (CONTINUED)

To the Governor of the Central Bank of Barbados (continued)

Report on the Audit of the Financial Statements (continued)

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

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

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.

A further description of the auditors' responsibilities for the audit of the financial statements is located at the Institute of Chartered Accountants of Barbados' website at: <http://www.icab.bb/about-icab/auditing>. This description forms part of our auditors' report.

A handwritten signature of the KPMG firm, written in dark ink.

Chartered Accountants
Bridgetown, Barbados
May 8, 2020

Enhanced Credit Guarantee Fund

Statement of Financial Position


As at December 31, 2019
With comparative figures for 2018

(Expressed in Barbados dollars)

	<u>Notes</u>	<u>2019</u>	<u>2018</u> <u>Restated</u>
General Fund			
Capital contributions	5	\$ 55,220,135	39,123,957
Accumulated deficit		<u>(2,741,183)</u>	<u>(290,965)</u>
Total Funds		\$ <u>52,478,952</u>	<u>38,832,992</u>
REPRESENTED BY			
Assets			
Cash		\$ <u>52,755,062</u>	<u>39,130,730</u>
Total assets		<u>52,755,062</u>	<u>39,130,730</u>
Liabilities			
Provisions	2(e), 6	253,910	285,538
Accounts payable and accrued liabilities		<u>22,200</u>	<u>12,200</u>
Total liabilities		<u>276,110</u>	<u>297,738</u>
Net Assets		\$ <u>52,478,952</u>	<u>38,832,992</u>

See accompanying notes to the financial statements.

Approved by:



Governor



Director

Enhanced Credit Guarantee Fund

Statement of Profit or Loss and Other Comprehensive Income

For the year ended December 31, 2019

With comparative figures for 2018

(Expressed in Barbados dollars)

	<u>Notes</u>	<u>2019</u>	<u>2018</u> Restated
Income			
Premiums		\$ <u>329,505</u>	<u>126,191</u>
Total income		<u>329,505</u>	<u>126,191</u>
Expenses			
Claims	8	2,759,941	-
Expected credit (recovery) loss on financial guarantees	2(e)	(31,628)	285,538
Special project support		30,000	-
Audit		15,410	15,410
Promotion		<u>6,000</u>	<u>-</u>
Total expenses		<u>2,779,723</u>	<u>300,948</u>
Net loss being comprehensive loss for the year		\$ <u><u>(2,450,218)</u></u>	<u><u>(174,757)</u></u>

See accompanying notes to the financial statements.

Enhanced Credit Guarantee Fund

Statement of Changes in General Fund

For the year ended December 31, 2019

With comparative figures for 2018

(Expressed in Barbados dollars)

	<u>Notes</u>	<u>Capital Contributions</u>	<u>Accumulated Deficit</u>	<u>Total</u>
Balance at January 1, 2018		22,074,257	(116,208)	21,958,049
Capital contributions during 2018	5	17,049,700	-	17,049,700
Comprehensive income for the year		<u>-</u>	<u>110,781</u>	<u>110,781</u>
Balance at December 31, 2018 as previously reported		\$ 39,123,957	(5,427)	39,118,530
Correction of error related to 2018	2(e)	<u>-</u>	<u>(285,538)</u>	<u>(285,538)</u>
Balance at December 31, 2018 (restated)		\$ <u>39,123,957</u>	<u>(290,965)</u>	<u>38,832,992</u>
Balance at January 1, 2019		\$ 39,123,957	(290,965)	38,832,992
Capital contributions during 2019	5	16,096,178	-	16,096,178
Comprehensive loss for the year		<u>-</u>	<u>(2,450,218)</u>	<u>(2,450,218)</u>
Balance at December 31, 2019		\$ <u>55,220,135</u>	<u>(2,741,183)</u>	<u>52,478,952</u>

See accompanying notes to the financial statements.

Enhanced Credit Guarantee Fund

Statement of Cash Flows

For the year ended December 31, 2019

With comparative figures for 2018

(Expressed in Barbados dollars)

	<u>2019</u>	<u>2018</u> Restated
Cash Flows from Operating Activities		
Net loss for the year	\$ (2,450,218)	(174,757)
Expected credit (recovery) loss on financial guarantees	<u>(31,628)</u>	<u>285,538</u>
Operating (loss) profit before working capital changes	(2,481,846)	110,781
Increase in accounts payable and accrued liabilities	<u>10,000</u>	<u>-</u>
Net cash (used in) from operating activities	<u>(2,471,846)</u>	<u>110,781</u>
Cash flows from financing activities		
Contributions received	<u>16,096,178</u>	<u>17,049,700</u>
Net cash from financing activities	<u>16,096,178</u>	<u>17,049,700</u>
Increase in cash during the year	13,624,332	17,160,481
Cash at beginning of year	<u>39,130,730</u>	<u>21,970,249</u>
Cash at end of year	\$ <u>52,755,062</u>	<u>39,130,730</u>
Cash comprises:		
Cash at Bank	\$ <u>52,755,062</u>	<u>39,130,730</u>
	\$ <u>52,755,062</u>	<u>39,130,730</u>

See accompanying notes to the financial statements.

Enhanced Credit Guarantee Fund

Notes to the Financial Statements

For the year ended December 31, 2019

(Expressed in Barbados dollars)

1. Reporting

The Enhanced Credit Guarantee Fund (the "Fund") is a partial credit guarantee fund managed by the Central Bank of Barbados (the "Bank"). The Fund was developed as part of the Inter-American Development Bank's (IDB) Enhanced Access to Credit for Productivity Project with the Government of Barbados.

The Fund was established on November 11, 2015 in an effort to assist small businesses in obtaining adequate security for their loans from commercial banks. The Fund is designed to offer a substantial degree of protection to commercial banks and other financial institutions against possible losses in respect of the credit granted to small enterprises.

The Governor approved the financial statements on May 8, 2020.

2. Basis of Preparation

(a) *Statement of compliance*

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) approved by the International Accounting Standards Board (IASB).

(b) *Basis of measurement*

The measurement basis used is historical cost.

(c) *Functional currency:*

These financial statements are presented in Barbados dollars which is the Fund's functional currency.

(d) *Use of estimates and judgments:*

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(e) *Correction of error:*

It was discovered that in 2018 an Expected Credit Loss was not booked for the financial guarantees in accordance with IFRS 9. Consequently, liabilities and expenses were understated. The error has been corrected by restating each of the financial statement line items for prior periods.

Enhanced Credit Guarantee Fund

Notes to the Financial Statements (continued)

For the year ended December 31, 2019

(Expressed in Barbados dollars)

2. Basis of Preparation, continued

(e) *Correction of error:*

The impact of the correction of the error is as follows:

Statement of financial position

	<u>As previously Reported</u>	<u>Adjustment</u>	<u>As restated</u>
Balance at December 31, 2018:			
Provisions	\$ -	285,538	285,538
Total liabilities	12,200	285,538	297,738
Accumulated deficit	(5,427)	(285,538)	(290,965)
Total Equity	39,118,530	(285,538)	38,832,992

Statement of profit or loss and other comprehensive income

	<u>As previously Reported</u>	<u>Adjustment</u>	<u>As restated</u>
Balance at December 31, 2018:			
Expected credit loss on financial guarantees	\$ -	285,538	285,538
Net income (loss)	110,781	(285,538)	(174,757)

Enhanced Credit Guarantee Fund

Notes to the Financial Statements

For the year ended December 31, 2019

(Expressed in Barbados dollars)

3. Significant Accounting Policies

The significant accounting policies adopted in the preparation of these financial statements are as follows:

(a) *Revenue and expenses:*

- Premiums are accounted for on the cash basis since the timing of collections is in doubt.
- Claims and recoveries are accounted for on the cash basis since the timing of collections is in doubt.
- All other revenues and expenses are accounted for on the accrual basis.

(b) *Cash*

The Fund considers all cash in bank, deposits with financial institutions that can be withdrawn without prior notice or penalty, and short-term deposits with an original maturity date of ninety days or less as equivalent to cash.

(c) *Financial Instruments*

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. In these financial statements:

- Financial assets have been determined to comprise cash.
- Financial liabilities comprise account payable and accrued liabilities.

Financial instruments are classified, recognized and measured in accordance with the substance of the terms of the contract as set out herein.

Financial Instruments: Initial Recognition

The Fund recognizes a financial instrument when it becomes a party to the contractual terms of the instrument. The Fund initially recognizes loans and receivable and debt securities on the date when they are originated. All other financial assets and financial liabilities are initially recognized on the trade date.

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. When the fair value of financial instruments at initial recognition differs from the transaction price, the Fund accounts for the Day 1 profit or loss.

Enhanced Credit Guarantee Fund

Notes to the Financial Statements

For the year ended December 31, 2019

(Expressed in Barbados dollars)

3. Significant Accounting Policies (continued)

(c) Financial Instruments (continued)

Initial Measurement of Financial Instruments (continued)

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 Fund recognizes the difference between the transaction price and fair value in income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognized in profit or loss when the inputs become observable, or when the instrument is derecognized.

Measurement Categories of Financial Assets and Liabilities

The Fund classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured as follows:

- Debt instruments at amortized cost
- Debt instruments at fair value through other comprehensive income (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 fair value through profit or loss (FVPL)

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

i) Specific items

1) Cash and fixed deposits

Cash comprises cash on hand. Cash and fixed deposits are measured at cost.

2) Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are measured at amortized cost.

Enhanced Credit Guarantee Fund

Notes to the Financial Statements

For the year ended December 31, 2019

(Expressed in Barbados dollars)

3. Significant Accounting Policies (continued)

(d) *Financial Assets and Liabilities*

Management determines the appropriate classification of financial assets at the time of purchase or origination, taking account of the purpose for which, the financial assets are held.

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

The Fund'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 Scheme'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 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 Fund's original expectations, the Fund 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.

Enhanced Credit Guarantee Fund

Notes to the Financial Statements

For the year ended December 31, 2019

(Expressed in Barbados dollars)

3. Significant Accounting Policies (continued)

(d) Financial Assets and Liabilities (continued)

The SPPI (Solely Payments of Principle and Interest) Test

As a second step of its classification process the Fund 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 Fund 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

The Fund 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.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value are recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss in the same manner as for financial assets measured at amortized cost.

(f) 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 is met.

Enhanced Credit Guarantee Fund

Notes to the Financial Statements

For the year ended December 31, 2019

(Expressed in Barbados dollars)

3. Significant Accounting Policies, continued

(f) *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.

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 and loss.

(g) *Reclassification of Financial Assets and Liabilities*

The Fund does not reclassify its financial assets subsequent to their initial recognition.

(h) *Derecognition of Financial Assets and Liabilities*

The Fund derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains all or substantially all of the risks and rewards of ownership and does not retain control over the transferred asset.

Any interest in such derecognized financial asset that is created or retained by the Fund is recognized as a separate asset or liability.

The Fund derecognizes a financial liability when its contractual obligations expire or are discharged or cancelled.

Enhanced Credit Guarantee Fund

Notes to the Financial Statements

For the year ended December 31, 2019

(Expressed in Barbados dollars)

3. Significant Accounting Policies, continued

(i) Impairment of Financial Assets

Overview of the ECL principles

The adoption of IFRS 9 has fundamentally changed the Fund's loss impairment method by replacing IAS 39's incurred loss approach with a forward-looking ECL approach. The Fund has been recording the allowance for expected credit losses for 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). 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 Fund 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 Fund 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 recognized, the Fund recognizes 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 Scheme 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 Fund records an allowance for the LTECLs.
- POCI: Purchased or originated credit impaired (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 recognized based on a credit-adjusted EIR. ECLs are only recognized or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Fund has no reasonable expectation 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.

Enhanced Credit Guarantee Fund

Notes to the Financial Statements

For the year ended December 31, 2019

(Expressed in Barbados dollars)

3. Significant Accounting Policies, continued

(i) *Impairment of Financial Assets, continued*

The Calculation of ECLs

The Fund 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 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 derecognized and is still in the portfolio.
- EAD - The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments.
- LGD - The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD.
- The maximum period for which the credit losses are determined is the contractual life of a financial instrument unless the Scheme has the legal right to call it earlier. The mechanics of the ECL method are summarized 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 Scheme 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 Fund 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 Fund recognizes the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.

Enhanced Credit Guarantee Fund

Notes to the Financial Statements

For the year ended December 31, 2019

(Expressed in Barbados dollars)

3. Significant Accounting Policies, continued

(i) Impairment of Financial Assets, continued

The Calculation of ECLs

- POCI: assets are financial assets that are credit impaired on initial recognition. The Fund only recognizes the cumulative changes in lifetime ECLs since initial recognition, based on probability-weighting scenarios, discounted by the credit adjusted EIR.

(j) Financial Guarantees

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

Financial guarantees issued are initially measured at fair value. Subsequently they are measured at the higher of the loss allowance determined in accordance with IFRS 9 and the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15. Liabilities arising from financial guarantees are included within provisions.

Enhanced Credit Guarantee Fund

Notes to the Financial Statements

For the year ended December 31, 2019

(Expressed in Barbados dollars)

4. Financial Risk Management

Risk management overview

The Fund was established primarily to assist small businesses which encounter difficulty in providing commercial banks with adequate security for small loans by providing guarantees on their behalf.

The Fund is located within the Foreign Exchange and Export Credits Department of the Central Bank of Barbados, and benefits from the network of local and foreign systems for gathering, processing and analyzing financial information.

The Banking Supervision Department of the Bank conducts periodic off-site and on-site surveillance of financial intermediaries, while other departments monitor foreign and domestic liquidity trends of approved financial intermediaries.

Management of the Foreign Exchange and Export Credits Department, is responsible for monitoring the Fund's asset and liability position with the objective of ensuring that the Fund meets its obligations without undue cost or risk and in compliance with regulatory or other requirements.

Credit risk

The Fund is not exposed to credit risk as there are no counterparties with any contractual obligations to the Fund.

Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due.

The Fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and abnormal conditions, without incurring unacceptable losses or risking damage to the Fund's reputation.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, equity prices or inflation, will affect the Fund's income. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Research Department of the Central Bank of Barbados makes quarterly and annual forecasts of trends in economic data in most of the important economic sectors. It is considered the leading and most comprehensive source of economic data in Barbados. The Bank also monitors financial information on a weekly and fortnightly basis, and this information is available to the managers of the Foreign Exchange and Export Credits Department.

The Fund does not invest in equities and in general, the Fund's exposure to market risk is considered minimal.

Currency risk

The Fund has no investments. The Bank is the delegated exchange control authority charged with the maintenance of an environment conducive to the maintenance of the longstanding fixed exchange rate peg of the Barbados dollar to the United States dollar. The Fund's exposure to currency risk is therefore minimal.

Enhanced Credit Guarantee Fund

Notes to the Financial Statements

For the year ended December 31, 2019

(Expressed in Barbados dollars)

4. Financial Risk Management (continued)

Interest rate risk

The Fund periodically monitors trends in interest rates and interest rate risk is considered minimal.

Capital management

The Fund's policy is to maintain a strong capital base so as to maintain market confidence and to sustain future development of the business. However, it is not intended that the Fund should make extraordinary profit.

5. Capital Contributions

Pursuant to the Loan Contracts, this Fund will be financed by the IDB in the amount of US\$35 million (BDS\$70 million) comprising BDS\$35 million from the Ordinary Capital Reserves of the IDB and BDS\$35 million from the China Co-financing Fund for Latin America and the Caribbean that is administered by the IDB. During the year the Fund received BDS \$16,096,178 (2018: \$17,049,700) being \$8,046,662 from the IDB and \$8,049,516 from the China Co-financing Fund for Latin America and the Caribbean.

6. Provisions and Commitments

At December 31, 2019, the amount in respect of financial guarantee contracts issued represents the ECL provision of \$253,910 (2018: \$285,538).

At December 31, 2019, guarantee settlement under the Fund was as follows:

	<u>Value of Contracts</u>	<u>Guarantees</u>
\$	<u>54,529,705</u>	<u>23,229,235</u>

7. Financial Instruments

Financial assets comprise cash. Financial liabilities comprise accounts payable and accrued expenses and provisions.

(a) *Credit risk*

Cash is held with the Central Bank of Barbados.

(b) *Fair value*

The fair values of cash, accounts payable and accrued liabilities and provisions are equivalent to their carrying amounts.

Fair value estimates are made at a specific point in time, based on market conditions and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Enhanced Credit Guarantee Fund

Notes to the Financial Statements

For the year ended December 31, 2019

(Expressed in Barbados dollars)

8. Claims

During the year, a sum of \$2,759,941 was paid to settle claims made under the Enhanced Credit Guarantee Fund.

9. Subsequent Events

Certain impacts to public health conditions particular to the coronavirus disease 2019 (COVID-19) outbreak that occurred subsequent to year end may have a significant negative impact on the operations and profitability of the Fund. The extent of the impact to the financial performance of the Fund will depend on future developments, including but not limited to (i) the duration and spread of the outbreak, (ii) the restrictions and advisories, (iii) the effects on the financial markets, and (iv) the effects on the economy overall, all of which are highly uncertain and cannot be predicted. If the financial performance of the Fund is impacted because of these things for an extended period, the Fund's results may be materially adversely affected.