

# BARBADOS PUBLIC WORKERS' CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Consolidated Financial Statements

For the year ended March 31, 2016

(Expressed in Barbados dollars)

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## 25. Financial Risk Management, continued

### 25.1 Introduction, continued

The Group's policy is that risk management processes are audited annually by the Internal Audit function, which examines both the adequacy of the processes and the Group's compliance with the processes. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Supervisory and Finance Committees.

#### *Risk mitigation*

As part of its overall risk management, the Group invests a portion of its available funds in lending, financial investments and non-earning assets. The Group's main source of income is derived from lending and it seeks to actively use collateral to reduce its credit risk. The Group also has sought long term funding requirements to match their long term loan position.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio.

### 25.2 Credit risk

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and by monitoring exposures in relation to such limits. Credit risk exposures arise principally in lending activities that lead to loans and advances, and investment activities that bring debt securities into the Group's asset portfolio. There is also credit risk in off-balance sheet financial instruments, such as commitments.

#### *Loans and advances*

The Group employs a range of policies and practices to mitigate credit risk relating to loans and advances. The most traditional of these is the taking of security for funds advanced. The principal collateral types for loans and advances within the Group are:

- Mortgages over residential properties
- Charges over financial instruments such as debt securities and equities
- Charges over business assets such as premises
- Hypothecation of deposit balances

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claims. The Group does not occupy repossessed properties for business use.

#### *Financial investments*

The Group limits its exposure to credit risk by investing only in entities that have high credit ratings and Government of Barbados securities. Government securities are invested over a longer period than term deposits with other financial institutions which typically mature within one year. The Group has invested in available-for-sale equity instruments as well which gives it an opportunity to monitor the performance of these companies over time and make economic decisions where warranted. The Group has documented investment policies in place, which guide the management of credit risk on investments.