

# BARBADOS PUBLIC WORKERS' CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Consolidated Financial Statements

For the year ended March 31, 2019

*(Expressed in Barbados dollars)*

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## 26. Financial Risk Management, continued

### 26.2 Credit risk, continued

*Financial investments, continued*

#### **Assessment of Sovereign debt securities, continued**

In keeping with the requirements of the IFRS 9 standard, the previous investments which were carried at amortized cost were derecognized and replaced by that of the new securities at their fair market value. This resulted in a derecognition expense of \$4,037,931 below their 2018 year end stated value.

However, IFRS 9 requires that a further assessment of these securities be performed at each financial yearend until, time of maturity or sale of the investment. This analysis considered the fact that Standards and Poor's raised its long term local currency sovereign credit rating on Barbados to "B-/B" from "SD" (Selective Default) on November 16, 2018. This taken together with the government's decision to default on its foreign exchange commitments was considered by the Group as significant increase in credit risk.

As a consequence, a derecognition assessment was carried out as at October 1 2018 on the principal and capitalized interest of the underlying investments. The Central Bank of Barbados yield curve for these securities was compared with that of the Institute of Chartered Accountants of Barbados (ICAB) to arrive at the risk free rate used in the performance of this calculation. The Net Present Value (NPV) was calculated on each strip and was deducted from the carrying value to arrive at the loss on derecognition.

An ECL assessment was performed at March 31, 2019 as required by IFRS 9. This assessment on the Group's debt securities measured at amortized utilized the following methodology as outlined below:

- Due to the lack of published statistical data and the lack of an active market for securities, Moody's Investor's Report dated April 8, 2019 on Sovereign default and recovery rates, 1983 to 2018 were used to provide the cumulative default rates (CDR) for categories of bonds similar to Barbados'. This gave the cumulative probability of defaults over a 10 year period.
- A recovery rate of 55% for the treasury notes issued by the Government of Barbados and Barbados Agricultural Management Co. Ltd. was utilized. This represents the recovery rate for the defaulted foreign currency bonds. Therefore 45% was the loss given default (LGD).
- A recovery rate of 80% for the Barbados Port Inc. bonds was used since these securities were not part of the debt exchange and had a higher likelihood of repayment due to the corporate independence, financial stability and profitability of the Barbados Port Inc. The loss given default (LGD) was therefore 20%.
- The discount rate applied was the yield curve supplied by the Institute of Chartered Accountants of Barbados (ICAB).