

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)

26. Financial Risk Management, continued

26.4 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Group is mainly exposed to interest rate risk. The Group's exposure to currency risk is minimal as a result of the fixed rate of exchange between the Barbados and Eastern Caribbean dollar.

Interest rate risk

Interest rate risk is the risk of loss from the fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. It arises when there is a mismatch between interest-bearing assets and interest-bearing liabilities, which are subject to interest rate adjustments, within a specified period. It can be reflected as a loss of future net interest income and/or a loss of current market values.

Interest rate risk, continued

An interest rate sensitivity analysis was performed to determine the impact on profit of reasonable possible changes in the interest rates prevailing as at March 31, 2019, with all other variables held constant.

The impact is illustrated and shown in the table below:

	<u>2019</u>	<u>2018</u>
Increase / decrease of 100 bps		
Impact on profit + 100 bps	\$ (3,954,928)	6,368,569
Impact on profit – 100 bps	3,916,945	1,047,858

26.5 Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and 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.

While operational risk is inherent to each of the Group's business activities, the exposure is minimised by ensuring that the appropriate infrastructure, controls, systems and human resources are in place. Key policies and procedures used in managing operating risk involve a strong internal audit function, segregation of duties, delegation of authority, and financial and managerial reporting.

Within the Group, mitigation of operating risk is assigned to senior management supported by a well-defined organisational structure that segregates operational and administrative functions. Back-up capabilities are also maintained to ensure on-going service delivery in adverse circumstances.

In addition, periodic reviews are undertaken by the Internal Audit department. The results of the reviews are discussed with the management of the business unit to which they relate, senior management and the Board of Directors.