

BARBADOS PUBLIC WORKERS' CO-OPERATIVE CREDIT UNION LIMITED

Notes to the Non-consolidated Financial Statements

For the year ended March 31, 2019

(Expressed in Barbados dollars)

2. Accounting Policies, continued

(p) Expected credit losses and impairment

(i) Non derivative financial assets

As at January 1, 2018 and thereafter, the Credit Union recognizes a forward looking expected credit loss model on its financial assets measured at amortized cost and loan commitments issued. At each reporting date, the Credit Union measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses, if the credit risk on the financial asset has increased significantly since initial recognition (Stage 2) or if there is objective evidence of impairment (Stage 3). If at the reporting date, the credit risk on the financial asset has not increased significantly since initial recognition, the Credit Union measures the loss allowance for the financial asset an amount equal to twelve month expected credit losses (Stage 1).

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Credit Union considers reasonable and supportable information that is relevant and available without undue cost or effort. The ECL model applied to financial assets requires judgment, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset. Consideration of how changes in economic factors affect ECLs are determined on a probability weighted basis.

The ECL allowance associated with financial assets measured at amortized cost are presented in the non-consolidated statement of financial position as a deduction from the gross carrying amount of the assets.

For loan commitments, generally a provision is recognized. In the event the financial instruments includes both a drawn and undrawn component, and the Credit Union cannot identify the ECL on the loan commitment separately from the drawn component, the Credit Union presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

No impairment loss is recognized on equity investments.

Credit impaired financial assets

A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit impaired includes the following observable data:

- Significant financial difficulty of the borrower or issuer
- A breach of contract such as default or past due event
- The restructuring of a loan or advance by the Credit Union on terms that the Credit Union would not otherwise consider
- The disappearance of an active market for a security because of financial difficulties

A loan that has been renegotiated due to the deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a loan that is overdue for 90 days or more is considered credit-impaired.