

# 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)*

---

## 24. Financial Risk Management, continued

### Credit risk, continued

#### *Financial investments, continued*

##### *Assessment of Corporate Investments (Term deposits), continued*

Each investment was assessed based on the entities' ability to meet its short term obligations together with its historical relationship with the Credit Union relative to meeting these same obligations. This back testing approach is allowed under IFRS 9 in relation to the ranking of investments based on the purpose for which the investment is held.

The investments mentioned herein are best described as callable upon demand, with the exception of the Barbados Light & Power Limited, which is held as a security deposit. While each investment contract carries a fixed term, they can be called prior to maturity with a penalty of forgone interest.

##### *Assessment of Sovereign debt securities*

On June 19, 2018, the Barbados' government formally entered into default when the grace period for payment of interest and principal on its foreign 2035 bonds expired.

The Barbados government entered into the Barbados Economic Recovery and Transformation (BERT) program, with its local currency debtors. Under this program holders of treasury bills, treasury notes, debentures, loans and bonds owed by the Government of Barbados received an offer of exchange on September 7, 2018.

The Credit Union's acceptance of this offer resulted in the restructuring of principal and interest payments of \$19,002,841 on its debt securities measured at amortised costs. The new securities are designated as Series B bonds in the amount of \$17,994,321 together with Series D bonds in the amount of \$1,008,847. The effective average yield on these securities for income year 2019 were 4.58% (2018 - 6.78%).

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 \$3,634,651 below their 2018 year end stated value.

However, IFRS 9 requires that a further assessment of these securities be performed at each financial year-end 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 Credit Union as significant increase in credit risk.